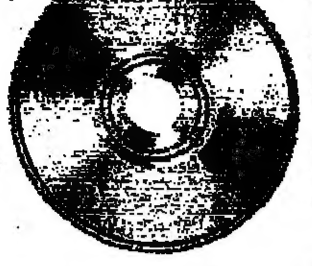
FINANCIAL TIMES



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World Business Newspaper http://www.FT.com THURSDAY DECEMBER 5 1996

Paris suspends Thomson sell-off

Commission rejects offer from preferred bidder Lagardère

By David Owen in Paris

The French government yesterday suspended the privatisation of Thomson, the electronics giant, after an independent commission rejected the terms of the offer tabled by Lagardère, the government's preferred bidder.

The surprise move, which followed a nationalistic backlash against Lagardère's proposals to sell Thomson Multimedia, its money-draining consumer electronics arm, to Daewoo of Korea, dealt a fresh blow to the authority of Mr Alain Juppé, French prime minister.

It also threatens to delay further the restructuring of Europe's fragmented defence industry. Whichever company wins, Thomson will have a big advantage in the fight for mastery of this critical sector.

Yesterday's announcement came after the seven-member Privatisation Commission, which vets all sales of state assets, told the government it could not approve certain aspects of the planned transfer of Multimedia to Daewoo for a symbolic FFr1.

The commission based its decision on concerns that pledges given by Daewoo on investment and job creation were unenforceable and that a complete divestment of Multimedia would remove any prospect of the state getting a return on its investment in the group's technological expertise.

Daewoo reacted furiously, with Mr Yang Jae-Yol, chairman, saying he was "scandalised" and deeply shocked by the French government's decision.

The government yesterday insisted the privatisation of Thomson was "indispensable", and said it still intended to go ahead with the sale as quickly as possible. It would make known the new conditions for the sale as soon as it could. Interested parties would have to take account of the opinions expressed by the commission.

Mr Juppé, who has staked his personal credibility on the success of the Lagardère bid, said the government's priorities remained "industrial coherence, the development of jobs and the preservation of the company's high technologies".

Last night, senior government officials said they remained keen to sell both parts of Thomson at the same time, but might modify the procedure.

Yesterday's decision was the second serious blow to the government's stuttering privatisation programme in less than three weeks. Last month, it

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Internet fuels 40% activity rise in Europe's IT sector

Rapidly increasing interest in the Internet has helped drive a 40 per cent increase in European merger and acquisition activity in the information technology sector this year to a value of $71.7bn, preliminary figures from London-based specialist Broadview Associates show. Broadview estimates that there have been more than 320 Internet-related deals worldwide this year, almost triple the number in 1995. Page 12

George V hotel fetches £104m

The George V hotel in Paris – one of Europe's most prestigious – was sold by UK-based Granada Group to a nephew of King Fahd of Saudi Arabia for £104m ($174m). Prince Alwaleed Bin Talal bin Abdulaziz Al Saud (left) is believed to be considering spending up to £50m to restore the hotel to its former splendour. The 258-room George V is the second of the 17 Exclusive hotels to be sold by the TV and leisure company after a £3.9bn hostile bid for the group's parent, Forte, in January. Page 13

Citibank to create 950 jobs in Ireland: US bank Citibank announced plans to create 950 jobs in Dublin processing international transactions for its corporate clients. The move boosts Ireland's growing reputation as a European centre for companies' back office operations. Page 6

Swiss to drop quotas: Switzerland agreed to scrap progressively its system of work permit quotas for European Union citizens. Page 3

Matif anticipates single currency: Matif, the French futures and derivatives exchange, announced plans to introduce a range of products based on the single European currency. Page 13

CVRD sale faces delay: *The sale of mining* company Companhia Vale do Rio Doce, expected to be Latin America's biggest privatisation, is facing delay because of increasing political opposition in Brazil. Page 13

Israel to ease Jordan trade: Israel agreed to abolish a controversial trading system with Jordan and pledged to cut import tariffs, in an attempt to improve cross-border trade. Page 6

Singapore Airlines in acquisition talks: Singapore Airlines began negotiations to take a stake in Sempati Air, a private airline controlled by the youngest son of Indonesia's President Suharto. Page 13

Bhutto warns against commitments: Ousted Pakistan prime minister Benazir Bhutto warned the country's caretaker government against long-term commitments to the International Monetary Fund and World Bank without consulting the main political parties. Page 5

Philippines airport bid fails: Plans by a group of the Philippines' wealthiest ethnic Chinese businessmen to secure a contract to build a $500m international airport in Manila collapsed after disagreements with the government. Page 12

ADB to lend Gujarat $250m: The Asian Development Bank is poised to make a groundbreaking loan of $250m to the western Indian state of Gujarat to support policy reforms. Page 5

Japanese companies 'should pay PoWs': Japanese companies should compensate former British servicemen for hardship suffered during the second world war, UK foreign office minister Jeremy Hanley said. His comments drew a frosty response from the Japanese embassy in London. Page 7

Shortage of Christmas nuts: A possible shortage has pushed up prices of almonds and pistachios, and the cost of hazelnuts has jumped 35 per cent since August after the Turkish government intervened to bolster prices. Page 12; Commodities, Page 22

McDonald's loses 'Mc' fight: Allan Pedersen, who operates his McAllan frankfurter stall in the Danish town of Silkeborg, won a court victory over American burger chain McDonald's, which had disputed his right to the "Mc" prefix. Page 13

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■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,421.82	(-20.87)
NASDAQ Composite	1,298.61	(-0.76)
Europe and Far East		
CAC40	2,308.85	(-40.46)
DAX	2,868.67	(-20.91)
FTSE 100	3945.2	(-16.3)
Nikkei	20,858.91	(+29.35)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.01%
Long Bond	101⅝
Yield	6.361%

■ OTHER RATES

UK: 3-mo Interbank	6⅛%	(same)
UK: 10 yr Gilt	100⅝	(101⅜)
France: 10 yr OAT	106.44	(106.75)
Germany: 10 yr Bond	104.17	(104.48)
Japan: 10 yr JGB	104.7349	(104.5445)

■ NORTH SEA OIL (Argus)

Brent Dated	$24.24	(24.05)

■ GOLD

New York: Comex		
(Feb)	$372.5	(369.3)
London:		
close	$369.85	(367.0)

■ DOLLAR

New York: lunchtime		
£	1.6583	
DM	1.56575	
FFr	5.2935	
SFr	1.327	
Y	113.225	
London:		
£	1.6385	(1.652)
DM	1.5627	(1.5655)
FFr	5.2771	(5.2942)
SFr	1.3229	(1.3317)
Y	113.17	(113.73)
Tokyo close:	Y 113.45	

■ STERLING

DM	2.5805	(2.5879)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lit 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr280	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (inland)	Esc265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

US inflation 'is a lot lower' than estimated

By Gerard Baker in Washington

US inflation is sharply lower than officially estimated with far-reaching implications for the country's overall economic performance and the government's budget deficit, according to a report yesterday.

The commission on the reliability of US economic statistics, appointed by the Senate finance committee and led by Mr Michael Boskin, a former chairman of the president's Council of Economic Advisers, recommended several changes to the way inflation figures are calculated and reported. It also suggested legislation to alter the payment of social security benefits and the uprating of income tax thresholds.

Its recommendations could have important consequences for government finances. Almost a third of US government spending is on index-linked items such as pensions. Thresholds at which income taxes start and at which higher rates are paid are also raised each year in line with the consumer price index, the main measure of inflation.

Mr Boskin said the CPI overstated true inflation by 1.1 percentage points annually. The main reason was that the official measure did not properly reflect changes in quality when new products replace older goods. Nor did it take account of changing consumer spending patterns when relative prices changed.

The latest CPI figures suggest prices are rising at 3 per cent per year, but the commission believes the correct figure should be about 1.9 per cent. "We have no doubt . . . our recommendations would greatly improve the accuracy of the nation's price statistics," the commission said.

If the recommended method of calculating inflation were adopted, the US budget deficit would drop sharply from current projections. According to the Congressional Budget Office, a reduction of 1 point in the inflation rate would reduce the annual deficit by at least $63bn by 2002, more than one-third of the current projected deficit for that year.

However, the recommendations are certain to meet significant opposition in Congress and the administration. They would require approval by President Bill Clinton and the Republican-controlled Congress to be enacted.

Although they offer a way of cutting the budget deficit significantly, the smaller increases in benefits and tax thresholds will be highly unpopular. There were indications yesterday that neither Republicans nor Democrats were keen to be the first to propose legislation to change the current system.

Republican Senator Trent Lott, Senate Majority leader, called on the White House to act first. "We probably would not do it alone," he said. "I think it's something we need to do together."

The report also says the over-estimation of inflation suggests US economic performance has been much better than previously thought.

Wise men boost growth, Page 4

Troops in Paris yesterday guard the first Eurostar trains to arrive after the Channel tunnel fire. The security was part of a wider operation in the French capital and other cities after Tuesday's bomb blast which killed two people. Security tight, Page 2 PA

IBM in record 100-year bonds issue

By Tracy Corrigan in New York

International Business Machines yesterday launched $850m in 100-year bonds, the largest "century bond" issue ever. The issue is the latest in a spate of century bonds in the US as companies rush to take advantage of investors' appetite for higher-yield investments.

An IBM official said the deal represented an attractive financing opportunity, and the proceeds would be used for general corporate purposes including repaying shorter-term debt and buying back stock. IBM had $7bn in cash at the end of September, and just over $2bn in core debt.

The single-A rated bonds were priced to yield 7.22 per cent, only about 10 basis points more than investors can get for holding 30-year IBM bonds, and only 80 basis points more than for holding a 30-year US Treasury.

Mr Steven Nothern, a senior vice-president at MFS Investment Management in Boston, said investors were willing to lend at increasingly low rates because they recognised that the corporate sector did not need to borrow. A bond strategist added that, following a strong rally in the US bond market, investors were keen to "pick up a few extra basis points [in yield]".

IBM is the 21st company to issue 100-year bonds in the US market. Previous issuers include household names such as Walt Disney, Coca-Cola and Yale University. But $3.6bn of

Continued on Page 12

Bank of England reforms interest rate mechanism

Move likely to further open UK government bond market

By Graham Bowley and Richard Adams in London

The Bank of England yesterday announced wide-ranging reforms of the way it sets UK interest rates, in a move likely to further open up the UK government bond, or gilts, market to international investors.

The Bank also intends to widen the range of counterparties with which it trades debt. These will include banks, building and securities houses, as well as the discount houses which until now have enjoyed exclusive access.

From early next year, it plans to use gilt sale and repurchase agreements, or gilt repos, to manage daily UK short-term interest rates. This follows the successful growth of the gilt repo market to about £60bn ($101bn) since its introduction in January.

The Bank's move – which it hailed as the biggest change to the way it operates in the UK money markets for more than 100 years – brings the UK into line with other European countries such as Germany. Interest rate setting for a single European currency would almost certainly be based on repo operations.

Mr Ian Plenderleith, executive director at the Bank, said the modernisation would put the UK in a strong position to maintain its status as a pre-eminent international financial centre even if it decided not to participate in European monetary union.

He said: "We want to do what we can to promote the best practice in financial markets, which helps the economy and helps London's international position."

Foreign investors hold about a quarter of outstanding gilts, which total about £250bn. Analysts said that the use of the repo in UK money market operations was likely to boost the gilt repo market further which in turn would attract foreign investors used to repo in their own government debt markets.

The move broadens the range of debt instruments the Bank of England buys and sells in financial markets in order to add or drain liquidity from the banking system.

Gilt repos will be used alongside the Treasury bills and local authority and bank bills which the Bank buys and sells at present.

The move was welcomed by the City. "The Bank of England is finally pulling us into the 20th century," said Mr John Shepperd, chief economist at Yamaichi.

Discount houses were also enthusiastic. "We welcome the move as a new opportunity," said Mr James Barclay, chairman of Cater Allen, the discount house.

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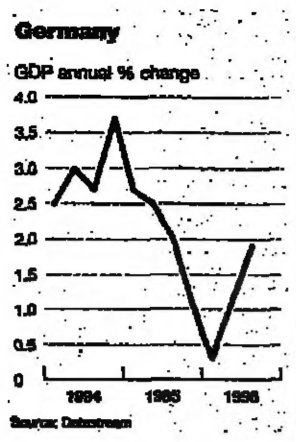


Hopes for German economy pick up

By Ralph Atkins in Bonn

Germany's economy saw further growth in the third quarter of this year, helping assuage fears that the recent upturn would quickly run out of steam.

Gross domestic product increased by 1 per cent in the three months to September, on a seasonally adjusted basis, compared with the previous quarter, the Germany federal statistics office said yesterday.

The rise followed a 1.5 per cent jump in the second quarter and confirmed the economy was expanding steadily after a dip between the end of 1995 and early this year.

Mr Günter Rexrodt, economics minister, was optimistic that economic growth would soon have an impact on Germany's high level of registered unemployment, which grew by more than 9 per cent in the year to the third quarter. Official labour market figures for November are published today.

The federal government expects the economy to grow by 2.5 per cent next year and hopes extra tax revenues generated by more buoyant activity will help the country meet Maastricht criteria on economic and monetary union. Mr Rexrodt said the latest figures showed the government's expectations were "attainable".

Signs that economic growth may have slowed since the end of the period covered by the GDP figures came on Tuesday when figures showed a seasonally adjusted fall of 1.8 per cent in industrial production between September and October. However, statistics yesterday on manufacturing orders showed a 2.9 per cent increase during the same period – suggesting that production might subsequently pick up. The rise in manufacturing orders, particularly from outside Germany, helped correct a 3.4 per cent fall in the previous month.

Analysts also expected a rebuilding of industrial stocks in coming months. This would help sustain economic growth into next year before recent cuts in federal spending began to bite.

Unadjusted third quarter GDP figures from the federal statistics office showed a rise of 2.4 per cent compared with the same period a year before. Growth has been driven largely by exports – almost certainly encouraged by recently weakening of the D-Mark – as well as government spending. Private consumption remained subdued.

Mr Rexrodt said: "It is important now that dynamic export developments translate into domestic investment activity and employment."

Comparable figures for the year to the second quarter of 1996 showed a 1.2 per cent increase in GDP.

Security tight after Paris bomb

By Andrew Jack in Paris

Three people were fighting for their lives and a further 23 were still in hospital yesterday after Tuesday's bomb explosion in a rush-hour commuter train in central Paris killed two people and left 93 injured.

More than 1,800 soldiers were deployed during the day in Paris and other cities around France as the Vigipirate security programme instigated after last year's terrorist attacks was relaunched. Share prices fell for Galeries Lafayette, BHV and Pinault-Printemps Redoute, quoted groups with large department stores in central Paris which were affected by a drop in visitors after last year's bomb attacks.

Mr Alain Juppé, prime minister, told politicians in the National Assembly that France had to react with "sang-froid and determination" in its efforts to protect its citizens and to track down those responsible for the attack, which he said bore "great similarities" with those last year.

Mr Jean-Louis Debré, interior minister, said after a cabinet meeting that the explosion was caused by a 13kg gas canister filled with 10cm nails.

Similar devices were used in a series of blasts over a three-month period last year which killed eight people and wounded more than 150. The blasts were linked to an outlawed armed Islamic group in Algeria.

The French foreign ministry stressed yesterday that there was no information to justify a connection with Algeria, a country with which it said it wanted to maintain "normal relations", and where a highly controversial presidential referendum last week was criticised by opposition groups.

However, three anti-terrorist judges, Mr Jean-François Ricard, Mr Laurence Le Vert and Mr Jean-Louis Bruguière, who worked on the investigation into last year's attacks, were appointed to lead the inquiry yesterday.

Mr Juppé said that no one had claimed responsibility for the attack, and that France had been attacked because it symbolised "democracy and human rights".

But it emerged yesterday that a statement circulated in September by Mr Antar Zouabri, the official head of the Islamic group, said that all the conditions justifying "combat" were present in France.

Former big gun refines fire power

Russia's arms industry is reasserting itself in export markets, writes John Thornhill

Russia's arms exporters were crowing this week about concluding "the contract of the century" after they signed a $1.8bn deal with India to supply it with 40 Sukhoi Su-30 fighter-jets.

The news came as a shot in the arm to Russia's arms companies, which have seen their size and status savaged since the collapse of the Soviet Union. But such rhetoric also reflects the diminished expectations of an industry, which less than a decade ago accounted for more than one-third of the world's arms trade, then estimated at about $74bn.

Many other countries have experienced a painful contraction of their defence industries in the aftermath of the cold war but none so much as Russia. As the old saying ran, the Soviet Union did not have a military-industrial complex – it was a military-industrial complex.

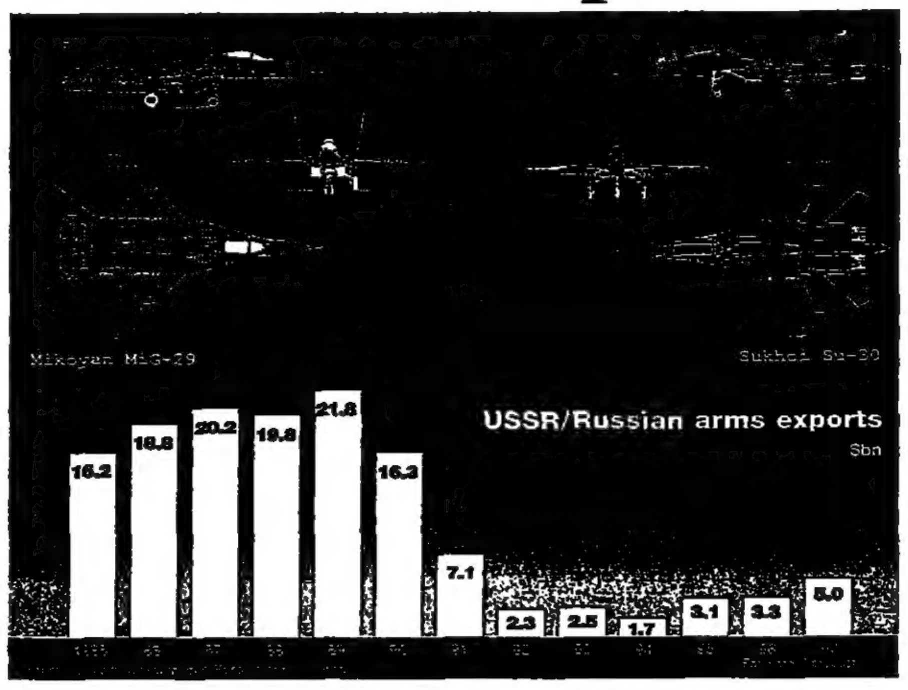
Orders from Russia's armed forces have since shrunk by more than two-thirds. Many former client states, such as those in eastern Europe, have also slashed their purchases of Russian arms as they turn to western suppliers to help press their case for joining Nato. Other big customers, including Syria, Libya, North Korea, Vietnam and Cuba have scaled down imports after losing soft credit terms. By 1994, Russian arms exports had sunk to a low of $1.7bn, accounting for just 6 per cent of the global market.

But in fits and starts Russia's arms industry does appear to be rationalising its production facilities and successfully re-orienting itself to export markets.

The Rosvooruzheniye arms export organisation, which has been mired in political controversy at home over allegations of corruption, appears to have done a good job in co-ordinating Russian sales abroad.

After a 30-year lull, Russia has resumed arms exports to China, selling it equipment worth more than $2.5bn since 1992. Russia has also prised open new markets in Malaysia, the United Arab Emirates and Kuwait. Peru is reported to have taken delivery of 12 MiG-29 jets, introducing a new generation of weaponry to the region.

The MiG-29 and Su-30 fighters, the MiG-AT trainer, and the Ka-50 military attack helicopter, known as the Black Shark, are reckoned by experts to be among the best in the world. Cheap prices and flexible terms of trade have given Russian arms manufacturers a competitive edge. But the industry, which has remained almost entirely in government ownership, faces a number of critical challenges.



Mr Boris Kuzyk, a presidential aide for military technical co-operation with foreign countries, says the industry is still struggling to overcome the legacy of an experimental regime, which operated between 1992-94, allowing 12 enterprises to export arms. According to Mr Kuzyk, these enterprises were surrounded by "scores of intermediaries involved in all kinds of machinations".

But Rosvooruzheniye's operations also appear to have become entangled in a power play as the current Kremlin leadership attempts to expunge the influence of Mr Alexander Korzhakov, the sacked head of the presidential bodyguard. "The military and technical co-operation programme was headed by the former chief of the presidential security service, Alexander Korzhakov, so Carthage must be destroyed," Mr Kuzyk said.

Western experts believe that although much Russian technology is of a high standard, it is far from clear that the industry has yet developed the expertise to manage big turn-key projects and properly service its customers.

Mr Digby Waller, defence economist at the London-based International Institute for Strategic Studies, says: "I think there is no doubt that the Russian industry has moved up a notch in the global arms market. But it has yet to show it can manufacture its impressive prototypes in volume and manage big commercial projects. Anyone who buys new Russian weapons systems is still taking a big risk."

Joke wears thin for Russian bond holders

Mr Yves Stella laughs off the news that the Russian government is finally to honour partial payment against the huge number of Tsarist bonds bought by French investors, who were spurned by Lenin after the 1917 Bolshevik Revolution.

His grandfather, who left the island of Corsica a poor man and returned rich after panning for gold in Venezuela at the turn of the century, lost much of his fortune by investing FFr300,000 in Russian bonds. Yet he is not even sure what has happened to the certificates.

Others are more determined to seek compensation. Marie-Louise, a Parisian who prefers not to give her last name, says her father, a perfumier, bought a number of Russian bonds just before he left to fight in the first world war, in an attempt to provide an income for his parents in case he did not return.

"He put all his savings into the bonds and always held on to them afterwards," she says. "He advised me to do the same before he died, and when I started to hear that there was a chance of them being reimbursed, I moved the bonds to a safe."

The phrase "Russian bonds" has for years been something of a national joke in France as a synonym for a hopeless investment: now it has taken on a new meaning. The historic accord signed last week between France and Russia for a compensation payment of FFr2bn ($380m) has sent many citizens scurrying in search of ancient documents.

For the last few days the telephones have been constantly engaged at Afper, the French association of Russian bondholders.

Mr Pierre de Pontbriand, the organisation's vice-president, who says he has "a certain number" of Tsarist bonds inherited from his grandparents, claims that only an estimated 4m of the original 30m bonds sold to French investors between 1822 and 1913 remain in circulation, with others stuck to walls, forgotten, destroyed or even secretly bought back over the years by Russia.

Mr Jean-Claude Paye, the senior French civil servant and former head of the Organisation for Economic Co-operation and Development who has been asked to head a commission dealing with compensation claims, has already received phone calls from bondholders. "Perhaps I should have a look in my attic to see if I have any bonds," he jokes.

But his task could prove far less amusing. Russia's pledge will not prove nearly as lucrative as many had hoped. The scant accord signed last week has left considerable uncertainties about who will be compensated and how much they will receive.

Even if Moscow does pay up, it is clear the FFr2bn pledged will be spread thinly. The French state itself has renounced any claims, but the money must be divided between Tsarist bondholders and other individuals and companies with claims against assets destroyed or confiscated in Russia, including during the second world war.

Mr Paye expresses concern that forged certificates may be a problem. Equally, there is a question-mark over whether those who have bought Russian bonds in flea markets or even on the Paris stock market in the last few years will receive preference over the descendants of original investors who have subsequently lost or sold their bonds.

"It is scandalous," says Mr de Pontbriand. "We will be given very little money. The government announced a fait accompli, saying 'here is the money, fight among yourselves over how it is distributed'."

Nevertheless, the coming months could throw up some lively stories. Mr Leslie Cousins, a partner with Price Waterhouse in London, co-ordinated distribution of £62.4m ($104m) to British bond-holders and others with confiscated property in pre-Revolutionary Russia after a similar agreement was reached in 1986.

Just 7,000 claims were ultimately received, of which 5,000 were successful, allowing payouts for 54 per cent of the face value of bonds and assets as diverse as an 1840 bottle of cognac, four tins of sardines and a 1918 season ticket for the Moscow opera, cancelled after history took an explosive course.

Andrew Jack

Milosevic may force rethink on peace process

By Laura Silber and Bruce Clark

An international conference on Bosnia began yesterday with a familiar ghost at the feast – Serbia's President Slobodan Milosevic, whose authority is being challenged by a storm of domestic protest and foreign criticism.

After more than two weeks of demonstrations in Belgrade, key figures in the Balkan peace process are concluding that reconciliation in Bosnia may be impossible without democracy in Serbia.

The unexpected strength of Serbia's opposition movement is forcing western governments to rethink a policy that has relied heavily on Mr Milosevic, often turning a blind eye to his authoritarianism.

The Serbian leader has partially rehabilitated himself in the eyes of the world by signing the Dayton peace agreement a year ago.

But Mr Michael Steiner, the senior German diplomat who is deputy to the international mediator, Mr Carl Bildt, yesterday questioned the wisdom of overlooking the Serbian leader's high-handed behaviour for the sake of Dayton.

"Dayton is a democratic vision of Bosnia, and if you believe in it, you have to support democracy in the countries sandwiching Bosnia," he said, referring to Serbia and Croatia.

"Those who really want the Dayton accord must show whose side they are on. One must stand on the side of the democratic forces who want election results implemented," said Mr Steiner, referring to the recent municipal polls in Serbia whose annulment by court decisions has triggered the protest movement.

In Belgrade, a court yesterday rejected a bid by the opposition Democratic party to reclaim a string of municipal election victories which had been cancelled by an earlier judicial decision at the regime's behest.

The European Union yesterday deplored the Serbian leader's crackdown on independent radio stations and rebuked him for ignoring a wave of calls to respect democratic principles.

But the leaders of Serbia's opposition coalition remain somewhat sceptical about the intentions of a western diplomatic community in Belgrade.

"We think some European diplomats may be playing a double game," one senior opposition figure said privately.

Mr Yevgeny Primakov, the Russian foreign minister, sounded a jarring note at yesterday's London conference by arguing that too much pressure on Mr Milosevic could destabilise Serbia. But Mr Strobe Talbott, the US deputy secretary of state, rejected this argument, saying democratic norms must apply to Serbia like everywhere else.

Bosnia's leaders at the peace implementation conference which opened at Lancaster House in London yesterday came under international pressure to arrest war criminals, speed formation of a new multi-ethnic government and comply with strict arms control agreements, write Anthony Robinson and Laura Silber.

Mr John Major, UK prime minister, urged a "series of detailed political undertakings" which the more than 50 countries providing economic aid and military support are demanding in return for continuing support.

The 40-page draft final document obtained by the Financial Times makes the arrest of war criminals, ensuring civil rights and better policing high priorities. It calls for a functioning Bosnia-wide central bank and national currency to be in place by early 1997, and wants agreement on a new national flag and symbols for the multi-ethnic state by February 15.

It also calls for customs posts along the borders of the multinational state to ensure a flow of revenue to it.

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EUROPEAN NEWS DIGEST

Erbakan hits out at EU

Mr Necmettin Erbakan, Turkey's Islamist prime minister, yesterday accused the European Union of humiliating his country. "Turkey has fulfilled all its obligations to Europe, but the EU has not. [It does] things to Turkey it does not do to any other country," he said, in his toughest comments on Europe since coming to power last July.

On Tuesday Mr Erbakan rejected an invitation to a working dinner during the EU's summit in Dublin next week, warning that "behaviour towards Turkey must be changed without fail. By not attending the Dublin meeting [I am] warning that Turkey cannot be treated this way".

While in opposition Mr Erbakan attacked Turkish ties with the EU, calling it a "Christian club", but moderated his rhetoric after taking power at the head of a coalition with the conservative, pro-European True Path party. European criticism of Turkey's human rights record and bad relations between Athens and Ankara have caused EU-Turkey ties to deteriorate in spite of approval of a customs union. *John Barham, Ankara*

Russians pay more taxes

Russian finance officials claimed yesterday that corporate taxpayers had "abruptly reconsidered" their obligations under the threat of bankruptcy, lifting federal tax revenues to 90 per cent of target last month compared with just 50 per cent in October.

Mr Pyotr Mostovoi, head of the federal bankruptcy agency, said there had been a general improvement in fiscal discipline but the government would continue to monitor closely 1,600 companies which owed more than Rbs3bn ($550m).

Government officials said that Avtovaz, the heavily-indebted manufacturer of the Lada car which has been threatened with bankruptcy, had agreed to attract new investors to the company by doubling its share capital. General Motors and Ford would be approached to help inject new funds into the plant.

The government has been keen to trumpet the success of its tax crackdown to encourage the International Monetary Fund to resume payment of its $10.2bn budget support loan, suspended because of fears about revenue shortfalls. *John Thornhill, Moscow*

Belgium eases path to euro

Belgium's finance minister, Mr Philippe Maystadt, said yesterday he was prepared to let Belgian banks offset against tax some of their transition costs to the single European currency. He told the banks' association he was examining ways in which exceptional costs linked to the euro – such as upgrading information technology and retraining staff – could be taken as provisions in profit and loss accounts and deducted from the tax bill.

Mr Maystadt made clear, however, that costs had to be "exceptional". There was no question of compensation for lost revenue resulting from the end of foreign exchange dealing in currencies subsumed into the euro.

The association has estimated total costs to Belgian banks of transition to the euro at BFr15bn ($475m) over the next four years, equal to 7.5 per cent annually of the sector's 1995 net profits of BFr50bn. Analysts warn that Belgium's many small banks could face particular problems. *Neil Buckley, Brussels*

Austrian shops to open longer

Austria's coalition government has agreed to follow Germany in allowing longer shopping hours. A parliamentary committee yesterday approved a law that would let shops open until 7.30pm on weekdays and 5pm on Saturdays. Family stores without employees will also be allowed to do business on Sundays. The new rules should go into effect in January.

The agreement came after months of difficult negotiations among the two governing parties, trade unions and the business lobby. Small shopkeepers, who have a strong voice in the conservative People's party, one of the coalition parties, opposed the change for fear of increased competition from the big chains. The unions demanded extra wages for evening and weekend work.

Germany's recent relaxation and the liberal shopping regime in other neighbouring countries raised fears that Austrian shops would lose even more business to cross-border shopping. This forced the issue and allowed Mr Johann Farnleitner, economics minister, to finally reach a compromise. *Eric Frey, Vienna*

Germany returns Bosnians

A group of 24 Bosnians living in Germany were flown home yesterday as part of an agreement by the German Länder (states) to repatriate refugees. The 24, most of whom had been living in Bavaria, were flown to Sarajevo.

The Bavarian interior ministry said 13 were convicted criminals and the rest were welfare recipients. The German embassy in Sarajevo and representatives from the Bavarian interior ministry would monitor their arrival and reception in Bosnia.

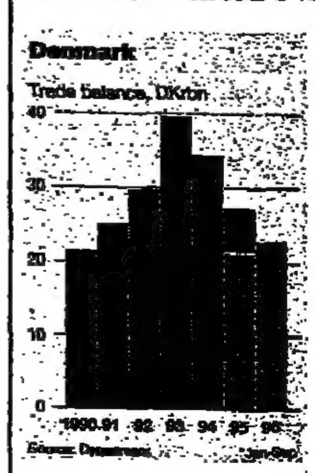
The repatriation of refugees from Germany, the European country which has given asylum to the greatest number of refugees from former Yugoslavia, has come in for criticism since it was agreed by a conference of Länder interior ministers in September. As a result, forcible repatriations have been largely confined to people convicted of criminal acts. The Bavarian ministry said some 2,500 refugees had returned to Bosnia voluntarily. *Frederick Stüdemann, Berlin*

Banco di Napoli concern

The European Commission is understood to be worried that Banco di Napoli, which is being rescued by the Italian Treasury, may be sold to a state-controlled bank. An official indicated yesterday that Brussels was concerned that the bank might be overvalued by state-owned bidders, which could be a disguised form of state aid. It is probing a proposal by the Treasury to recapitalise Napoli with L2,000bn ($1.3bn). *Reuter, Brussels*

ECONOMIC WATCH

Danish trade surplus rises



Denmark had a DKr3.18bn ($540m) trade surplus in September compared to a revised DKr2.74bn the month before, according to the central statistics bureau. That figure excludes ships. The seasonally adjusted surplus, excluding ships, was DKr1.98bn compared to a revised DKr2.66bn in August. The bureau also reported a current account surplus of DKr3.07bn in September against a revised DKr1.91bn in August. *AFP, Copenhagen*

■ Finland's current account showed a surplus of FM1.3bn ($280m) in October, compared with FM1.5bn a year earlier, the Bank of Finland said. In the 10 months to October, the surplus was FM12.5bn against FM15.4bn a year earlier.

■ Consumer prices in Turkey rose 5.2 per cent in November, compared with 6.5 per cent in October.

Rexrodt to raise López case with US

López: defected in 1993

By Haig Simonian, Motor Industry Correspondent

Mr Günter Rexrodt, Germany's economics minister, yesterday said he intended to raise the stormy legal row between Volkswagen and General Motors over alleged industrial espionage with his US counterparts at next week's World Trade Organisation meeting in the first sign that the row has had political repercussions.

He said "an acceptable solution" had to be found to the dispute, which has provoked civil and criminal court actions in the US and Germany. According to an official at the federal economics ministry, Mr Rexrodt is particularly concerned about the potential impact of the row on employment and on Germany's role in the motor industry.

The remarks follow a statement from prosecutors in Darmstadt that they would decide within the next week whether to charge Mr José Ignacio López, VW's former head of production and purchasing, and three other managers who are at the heart of GM's allegations that they stole confidential material when they defected to VW in 1993.

This week the two companies both claimed procedural victories in the civil action brought by GM against VW in the US. A "status conference" in Detroit to discuss how the case should proceed showed that GM would try to accelerate proceedings, while VW's legal team would attempt to encumber the process. VW, for example, defeated an attempt by GM to limit the number of witnesses who could be questioned during the "discovery" phase to 50.

Mr Plato Cacheris, representing Mr López and the three ex-GM managers cited with him, said he would file a motion next week for the Detroit proceedings to be postponed to allow them time to concentrate on the possible criminal charges in Germany and a separate criminal investigation under way by the US justice department.

Mr Cacheris indicated his clients might otherwise be obliged to take the fifth amendment (to avoid self-incrimination) during the Detroit case. GM has opposed the delay, on which Judge Nancy Edmunds, the federal district court judge hearing the case, is expected to rule in late January.

Judge Edmunds pressed all the lawyers in the case to avoid lengthy procedural disputes. "We're going to move this thing along," she said. The judge said the court intended to start taking depositions from witnesses in March, when a date for the full trial would also be next set. The final trial could take up to three years to complete.

Food group sale gives Italy's PM heartburn

Prodi's role in a 1993 privatisation deal has returned to haunt him, writes **Robert Graham**

The confused sale of a state-owned food group in 1993 has returned with a vengeance to haunt Mr Romano Prodi, the Italian prime minister.

The circumstances surrounding the privatisation of Cirio-Bertolli-de Rica (CBD) at a time when Mr Prodi was head of the Iri state holding company, risk undermining further his leadership which has been criticised as weak by his coalition allies.

The matter has refused to die down 10 days after a Rome magistrate requested that the premier be tried for alleged abuse of office and breach of the civil code regarding conflict of interest over the CBD sale.

For the first 24 hours both media and politicians seemed uncertain how to react, being aware that the CBD story had been around during last April's general election and that few had taken any notice of it. Since then, however, Mr Prodi has twice been obliged to protest his innocence and the affair has been given ever greater prominence, especially by rightwing opposition media.

The case originates from Iri's move to privatise SME, a huge agri-business/foods group. Ironically, during his first term as head of Iri, Mr Prodi had been prevented in 1985 from selling SME to Mr Carlo De Benedetti, head of Olivetti, by the government then led by the Socialist Mr Bettino Craxi.

When Mr Prodi began his second term at Iri in May 1993, he inherited a plan to sell SME in three divisions,

Prodi has protested his innocence but the affair has been given ever greater prominence

one of which was CBD. At the time, the multinational Unilever had made clear its interest but only wanted to keep CBD's olive oil interests. Such asset stripping by a multinational was considered politically unacceptable, especially as a large number of southern co-operatives depended on CBD's canned tomato activities.

Faced with union agitation and pressure from the powerful lobby of southern Christian Democrat politicians, Iri had little alternative but look for a local solution to the sale. This took the form of an offer from Fisvi, a southern agricultural consortium headed by Mr Carlo Saverio Lamiranda, who was closely linked to the local Christian Democrat bosses, and backed by guarantees from two local financial institutions. Iri accepted Fisvi's offer of L310bn ($205m) for its 68 per cent stake in CBD even though the little known consortium possessed capital of L50bn and debts of L60bn.

Fisvi indicated that it planned to sell on the olive oil business, Bertolli, to Unilever; and although it was never publicly stated, it was always assumed that this was how it largely intended to fund its acquisition. Within 10 days of Iri accepting Fisvi's offer, Bertolli had been sold to Unilever for L150bn. However, even with this cash, Fisvi was unable to complete payment for the deal and the remains of CBD was gradually taken over by the financier and agri-industrialist Mr Sergio Cragnotti.

In essence, the allegation against Mr Prodi and the Iri board is that they allowed a politically motivated sale to go through at a cheap price to the detriment of 12,000 small shareholders (one of whom complained to the magistrates), while knowing Unilever was ready to snap up Bertolli.

Romano Prodi: no court decision before mid-January *Reuter*

Mr Prodi is also alleged to have failed to avoid a conflict of interest. When he first left Iri in 1989 he returned to teach economics at Bologna and to work at Nomisma, a consultancy he helped found, where he became part of Unilever's international advisory board. He has produced letters to show he relinquished this role with Unilever the moment he returned to Iri in 1993 and has denied any impropriety.

Unfortunately for Mr Prodi, a court will only decide in mid-January whether he should be sent for trial. In the meantime, he is likely to be treated in the usual manner of those falling foul of the judicial system – to be considered guilty until proved innocent.

Environmental impact studies may be widened

By Caroline Southey in Brussels

The European Commission yesterday agreed to force local authorities to conduct environmental impact studies on long-term land development plans. Under present EU law environmental assessments are only required for specific projects, such as highways, in particular locations.

The proposal is aimed at strategic plans drawn up by "competent authorities". These vary from country to country but most involve plans for possible future housing, industrial and infrastructure developments. The studies will have to assess the impact of these plans on all environmental aspects of the region, including people, flora, fauna, soil, air and water.

Critics argue that the proposal is likely to exacerbate problems triggered by the present law. "Many projects already face lengthy delays because of legal challenges, particularly in northern member states," an EU diplomat said, adding that the Commission was laying down more "procedural hoops" which would lead to "more procedural challenges".

The proposal faced strong resistance in the Commission, particularly from Britain and Germany, and is likely to face broader opposition in the Council of Ministers. Mrs Ritt Bjerregaard, the environment commissioner, admitted it had been "difficult to get through", but believed it would lead to the preservation, protection and improvement of the environment.

The "overriding problem" with the present system was that it "takes place too late, often only when a project is about to be implemented", adding that early assessment would "prevent environmental damage at source" and that it would save future developers time and money.

Environment ministers, meanwhile, are set to extend the EU directive on environmental assessment studies by obliging developers to do impact studies on a host of new projects in sectors such as waste, mineral extraction and energy. Studies will also be mandatory for a host of new smaller projects.

● The Commission yesterday failed to find a way of reconciling two contradictory policies – subsidising farmers to grow tobacco while stepping up its anti-smoking campaign. It has delayed publication of two policy papers for two more weeks.

Swiss yield on work permits

By William Hall in Zurich

Switzerland has agreed to scrap progressively its system of work permit quotas for European Union citizens, removing one of the two main obstacles to a bilateral package covering relations with the European Union.

The Swiss, who voted in 1992 against joining the European Economic Area, have been trying for more than two years to reach an agreement which would allow them to enjoy some of the benefits of EU membership.

EU negotiators, however, have been insisting on Swiss acceptance of the principle of free movement of people. Switzerland is afraid of being swamped by an influx of foreigners. As a result, the two sides have agreed a complex compromise.

The Swiss have accepted a timetable which should lead to the scrapping of work permit quotas within six years of a treaty coming into force. However, they can opt out of the agreement after seven years if there is an unexpected influx of immigrants.

Switzerland's willingness to modify its system reflects the fact that only about 60 per cent of the 170,000 annual foreign work quotas are used at present. Nevertheless, the deal may still have to be put to the people in a referendum, and the Swiss People's party has already indicated it is not happy with it.

EU foreign ministers are expected to discuss the compromise tomorrow. Assuming it is accepted, then attention turns to the other problem, the question of road freight transit rights through Switzerland. The chance of a speedy resolution of differences in this area is remote, partly because the EU members themselves cannot agree on the issue.

NEWS: THE AMERICAS

Top economists find the official measure of US inflation has been sharply out for two decades

Wise men boost growth, cut inflation, at a stroke

It might well prove Professor Michael Boskin's finest hour. As President George Bush's chief economic adviser between 1988 and 1992, the distinguished Stanford University economist honourably failed, like most of his predecessors, to make much of an impact on the overall performance of the US economy. But yesterday, as chairman of a special commission, he achieved at a stroke what policymakers had sought for years – lower inflation, faster growth and deep cuts in the chronic budget deficit – all by the mere expedient of changing the numbers.

Mr Boskin and a team of four other economists were appointed by the Senate finance committee last year to investigate the reliability of US economic statistics. Their principal task was to ascertain whether the main current official measure of inflation, the consumer price index (CPI), overstated the real rate of increase in the cost of living for consumers.

Their conclusion, published yesterday, was that the CPI does indeed overstate inflation, by about 1.1 percentage points annually. Instead of the current 3 per cent inflation, the true figure is more like 1.9 per cent, they said. More important, the error has been in the numbers for about the last two decades, and has gradually got worse.

If the commission's recommendation for a change in the method of calculating inflation is accepted, it will not just re-write the economic history of the last 20 years, by reducing historic price rises and raising historic real growth. It will have an even greater effect on fiscal policy in the next 20, by raising tax revenues and cutting spending.

The commission identified three main errors in the current calculation of the CPI:

- The index fails to take acount of improving quality in goods and services, especially when new products are introduced. If the price of a new good is twice the price of one it replaces but the quality also improves, it would be wrong to say simply that the price has doubled.

The growth of the service sector in the last 20 years has made the problem much worse since improvements in the quality of services are much harder to measure. Mr Leonard Nakamura, an economist with the Federal Reserve Bank of Philadelphia, points out that consumer spending on services has grown enormously in the last two decades. The amount spent on medical costs, for example, used to be less than that spent on food. Now medical spending accounts for almost twice the level of household food spending, but improvements in quality mean price changes are hard to calculate.

- The current index also misses much substitution by consumers. If the price of apples rises relative to the price of oranges, consumers buy more oranges. But the CPI basket of goods does not change quickly enough to reflect that substitution effect, according to Prof Boskin.
- Consumers are able to buy many goods more cheaply today by changing the pattern of where they shop. The current index also fails to reflect that adequately.

The historical significance of the recalculation is enormous. In a world of rising prices, the estimated inflation rate is critical in judging the real performance of the economy: the increase in prices is subtracted from nominal growth in aggregates such as gross domestic product, wages and productivity to determine the real rate of growth.

The new estimate of past inflation means, therefore, that the US, far from suffering a period of somewhat sluggish growth in the last 20 years, has actually been growing at or above its longer-term trend rate; and wages and productivity, though they have still grown less rapidly than in the golden era of the 1950s and 1960s, have fared much better than previously thought.

But the really explosive element of the report is what it could mean for future US taxation and spending. If inflation is lower, the cost of automatically uprating public benefits – mostly pensions – would be much less than previously budgeted for. Taxes would also be higher since the increase in thresholds at which taxes are paid and at which higher rates of tax start, would also be lower.

According to the Congressional Budget Office, the combined effect would be to cut the currently projected fiscal deficit by more than a third by 2002.

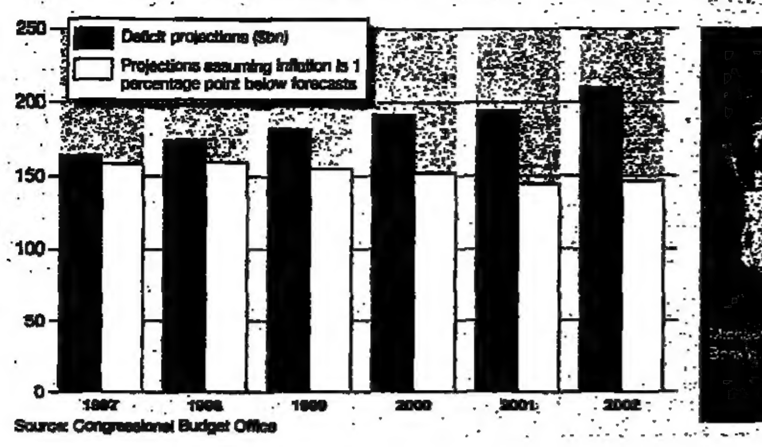
However, Mr Boskin's *deus ex machina* may be sabotaged before it gets to work. Politicians, though eager to grab at a chance to cut the budget deficit, are likely to balk at the costs of doing so. Smaller increases in pensions will outrage the elderly, a powerful political lobby. Meanwhile, opponents of the plan will not find it hard to persuade Republicans that smaller increases in tax thresholds are really tax increases in disguise.

Both the White House and the congressional leadership were already expressing extreme caution about the report yesterday. And they will have an important ally in the organisation that is now responsible for the CPI figures. The Bureau of Labor Statistics was clearly aggrieved yesterday at the besmirching of its reputation implicit in the Boskin report. Its economists are promising a rebuttal of the arguments over the next few months.

Confronted by such an array of powerful opponents, it seems unlikely that Mr Boskin's recommendations will get far beyond the debate that now begins in earnest. Efforts to improve US performance will have to focus again on the hard work of changing the economy, not the statistics.

Gerard Baker

The US budget: what a difference a point makes



Source: Congressional Budget Office

The US economy is growing moderately with little sign of rising prices, and retailers are optimistic about the approaching Christmas shopping season, a Federal Reserve survey shows, AP reports.

"Moderate economic growth continues to be reported in nearly all Federal Reserve districts," the Fed said yesterday. "Retail prices are stable in most districts."

"Retailers' expectations for sales in the upcoming holiday season are modestly optimistic," according to the survey, which was completed on November 23, a week before the traditional start of the shopping season.

The survey, known as the "beige book" because of the colour of its cover, will be used by Fed officials when they meet on December 17 to consider monetary policy.

Most analysts expect the Federal Open Market Committee to keep interest rates unchanged, saying the economy has slowed sufficiently to keep inflation at bay.

According to the beige book, although most districts reported little change in overall prices, they said labour markets remained tight.

Manufacturing activity increased modestly in most districts in October and November.

Albright tipped for Christopher's job

By Jurek Martin in Washington

Mrs Madeleine Albright, US ambassador to the UN, is likely to be President Bill Clinton's choice as next secretary of state, according to the latest wave of Washington speculation.

US officials refused all formal comment, but did not deny Mrs Albright had spent several hours in the White House on Tuesday and was still in the capital yesterday, presumably available for further consultation. An announcement could come as early as today or Friday.

Mr Clinton, in reshuffling his foreign policy team, may also move Mr Anthony Lake, his national security adviser for the last four years, to the CIA to succeed Mr John Deutch. Mr Sandy Berger, currently NSC deputy, is favoured to succeed Mr Lake.

Mr William Cohen, the outgoing senator from Maine, remains the most probable Republican recruit to the new Clinton cabinet as secretary of defence, succeeding Mr William Perry.

Mr Deutch, formerly Mr Perry's deputy, had sought a return to the top at the Pentagon, as well as expressing interest in the energy department, but will probably be frustrated on both counts and leave government.

The competition for the State Department, being vacated by Mr Warren Christopher, had come down to Mrs Albright, Mr George Mitchell, the former Democratic senator and currently chief US negotiator in Northern Ireland, and Mr Richard Holbrooke, principal architect of the Bosnian peace accords.

Mrs Albright would be the first woman to serve as secretary of state and her cause has been strongly pushed by women's lobbies with access to the president. But her loyal performance at the UN and in the public arena may have proved the determining factor.

Frequently blunt, she had been criticised for her initial handling of the US drive to deny a second term as UN secretary general to Mr Boutros Boutros Ghali.

But the African search for an alternative candidate, now joined in earnest, conforms to her expectations, while her willingness to criticise Mr Boutros Ghali and UN inefficiency has won applause in conservative congressional circles.

Mr Mitchell, long the favourite for the State Department, has a number of other options open to him. The settlement last week of the protracted baseball labour dispute may make the unoccupied position of the sport's commissioner more attractive, while a nomination to the next vacancy on the US Supreme Court cannot be excluded.

Meanwhile, another stalwart of the Clinton White House formally took his leave yesterday. Mr George Stephanopoulos confirmed in New York that in January he would join the political science faculty of Columbia University, where he earned his first degree before his Rhodes scholarship at Oxford.


Madeleine Albright: on her way up

Trinidad ponders falling currency

By Canute James in Kingston

The Trinidad and Tobago government has rejected suggestions that it should return to a fixed exchange rate, following steady depreciation of the currency over the past eight weeks.

An injection of several million dollars of foreign currency into the financial market by several state-owned companies has failed to revalue the currency at the levels the government was seeking. It has been forced to recast parts of the 1997 budget, to be presented this month, as the exchange rate has moved from TT$5.99 to the US dollar to TT$6.25.

"There is no need for panic," said Mr Brian Kuei Tung, the finance minister. "We are going through this learning curve and unfortunately some people are learning slower than others. That's all there is to it." The government would not abandon the floating rate and revert to the fixed rate which was used up to April 1993, he said.

Government officials said that although the administration could not intervene, it wanted a rate of just below TT$6.00 to the US dollar.

The government is concerned that further depreciation of the currency could fuel inflation (5.3 per cent last year and 1.3 per cent in the first half of this year) and might affect its popularity.

The coalition has a two-seat majority in parliament.

The concern of the prime minister, Mr Basdeo Panday, was indicated in an attack at a party political meeting on "speculators" and commercial banks for "making a killing" from the depreciation.

Amid reports that this indicated the government planned to intervene directly, Mr Panday later moderated his assessment of the situation. "A floating rate must float, that is to say it goes up and down and you will see it going up and down," he said.

Cavallo takes the moral high ground

Menem under fire from dissident politician

David Pilling and Stephen Fidler on a campaign upstaging Argentina's president

When Mr Domingo Cavallo was unceremoniously dumped as Argentina's economy minister last July, few could believe how quietly he went. Now, Argentines are dumbstruck by the ferocity with which he has returned to the political stage.

In a matter of days, Mr Cavallo has demanded the removal of three cabinet members, accused judges of "protecting smugglers and tax evaders" and warned President Carlos Menem to rid himself of the criminal elements he allegedly counts among his friends.

Most recently, Mr Cavallo, architect of Argentina's economic transformation, has turned his fire upon Mr Roque Fernández, his successor. Mr Fernández, he alleges, is too weak to resist the criminal organisations trying to fleece the nation and, in his apparent naivety, has shown himself to be either "incompetent or dishonest".

Such attacks are a thorn in the side of Mr Menem, whose official visit to Washington, which began yesterday, has been partly overshadowed by continual haranguing from Mr Cavallo, still the darling of many foreign investors.

The financial markets have shown no sign of being disturbed by the political turbulence. Mr Miguel Angel Broda, an economist, says Mr Cavallo's accusations are unlikely to disturb Argentina's increasingly robust recovery from recession. Mr Menem's response has been remarkably restrained. His former minister, he says, has "simply moved from the government to the opposition".

Members of his cabinet have not been so tolerant. They have accused Mr Cavallo of lying, being mentally unbalanced and – through his denouncements of Argentina on foreign soil – coming close to treason.

Mr Carlos Corach, interior minister and perhaps Mr Cavallo's bitterest enemy, has filed a suit, joining at least 20 other politicians, judges and journalists who are pursuing the former economy minister through the courts. Mr Corach has demanded Mr Cavallo spend three years in jail if he does not withdraw accusations that he manipulates the judiciary. Mr Cavallo says he had originally intended to remove himself from politics for 18 months. Instead, he has been stung into action by a campaign of "judicial harassment" aimed at destroying him politically and showing his team to be "corrupt".

Former Cavallo appointees are involved in several court cases, including a customs scandal and alleged dishonesty in the award of a $249m state contract to IBM.

Mr Cavallo says his dismissal has also left Mr Menem exposed to manipulation by politicians wishing to halt economic reform for their own ends. He points to an unusual government decision to commit to arbitration a legal dispute with companies belonging to Mr Carlos Bulgheroni, president of the Bridas oil and gas group – a "mistake" Mr Cavallo says could cost the nation $1bn.

He also alleges that a recent airport privatisation bill has been tailor-made to benefit concessionaires belonging to Mr Alfredo Yabrán, a businessman whom Mr Cavallo has frequently accused of running a Mafia-style organisation. That could cost a further $500m. Mr Yabrán has filed suit for slander. His spokesman, Mr Wenceslao Bunge, said Mr Yabran was being turned into a scapegoat to divert attention from scandals affecting the economy ministry under Mr Cavallo's watch.

Such has been the ferocity of Mr Cavallo's attacks on the government that even his closest allies are unsettled. Mr Rosendo Fraga, a political analyst and a personal friend, says: "Cavallo's political weakness is impatience. In three months, he's said what he should have said over three years."

Rather than gradually building what could have been an effective 1999 presidential campaign based on the fight against corruption, Mr Cavallo has pushed the government on to the offensive, says Mr Fraga. "What option do they have but to try to jail him?"

Mr Cavallo denies his attacks are aimed at Mr Menem. "Those that believe I am in a fight with Menem are accepting the idea that Menem in his second term wants to undo all he has done simply for the benefit of a gang of crooks, instead of continuing Argentina's transformation," he says. "I don't want to believe the Menem of the second term will be so different from the Menem of the first."

Mr Cavallo's campaign for a possible attempt at the presidency in 1999 begins next year when he runs for Congress as an independent. He admits he still lacks a political structure to mount a successful campaign in 1999, but says he can carve out the necessary political space over three years.

One of his closest allies in that process is likely to be Mr Gustavo Beliz, a former interior minister in Mr Menem's cabinet who quit in disgust at alleged corruption. Mr Beliz says that, although Mr Cavallo's outbursts were provoked by "judicial persecution", he runs the risk of confusing the public. Like a hurricane raging through Argentine institutions, Mr Cavallo's onslaught may in the short term cause such havoc the truth will be hidden in a swirl of insults.

But in the long term, Mr Beliz says, his decision to address the taboos of corruption and the abuse of power could pay dividends for the country. It may do Mr Cavallo's political ambitions no harm either.

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NEWS: ASIA-PACIFIC

Bhutto warns against commitments

By Peter Montagnon and Farhan Bokhari in Karachi

Ms Benazir Bhutto, Pakistan's ousted prime minister, has warned the caretaker government against long-term structural adjustment commitments to the International Monetary Fund and World Bank without consulting the country's main political parties.

Her warning in an interview came as Mr Shahid Javed Burki, the World Bank official who is advising the government on finance, set out for Washington to discuss a medium-term structural adjustment facility with the IMF.

"If the government needs short-term money, it should make a front-loaded programme with the IMF, and if it needs a long-term programme, then it should take the two major parties into its confidence on the figures and conditionalities," she said. "To enter into conditionalities that cannot be met is to set a time-bomb under the next government."

Ms Bhutto said the caretaker government, whose mandate expires in February when elections are due, could not negotiate on matters such as cuts in defence spending and tariff reform

> 'We do not expect the elections to be free because the president has malice against us'

which would make imports cheaper, eat up foreign exchange and cause unemployment.

Analysts say that by raising the question of defence spending, she is hoping to trigger concerns in the military about the activities of the caretaker government and undermine its support.

Holding court in the mansion of a political ally in Islamabad, she made no attempt to disguise her fury at President Leghari for dismissing her. She said Mr Leghari had talked the country into an economic crisis in October by placing false reports in international newspapers, warning the IMF not to negotiate with her and telling diplomats of corruption in high places.

But although he had access to documents of the intelligence agencies, he was unable to lay any corruption charges when she was dismissed on November 5.

"We do not expect the elections to be free because the president has malice against us." Ms Bhutto said her Pakistan People's party was the only national party in Pakistan, and the president's action could undermine national unity. This echoes a growing feeling among some bureaucrats concerned by the speed at which the caretaker government is moving to withdraw privileges from provincial governments.

Bhutto: no attempt to disguise fury

Ms Bhutto again denied she or her husband had been corrupt and said the delay in laying charges was because the government was having to fabricate them.

Before she was ousted she had been planning to retire as prime minister at the end of her term in 1998, but now "I'm fighting to win".

She said she was coping better with her dismissal, than the first time in 1990. "The first time it happened, I'll be frank, I didn't know whether my husband could take prison. My husband had never been in prison. I was so nervous and scared that he would break under prison, and that it would be humiliating for me and my party."

Her husband, Mr Asif Zardari, who was exceptionally unpopular as investment minister in her government, has been in prison on suspicion of corruption ever since she was ousted and is almost certain to face charges.

Ms Bhutto said she had never seen houses he was alleged to have bought in Ireland, Normandy and Surrey, saying she would not wish to live in those places. "I would prefer Paris or London," she said, but had no intention of seeking asylum abroad.

Growth rate tumbles to 3.8% in Australia

By Nikki Tait in Sydney

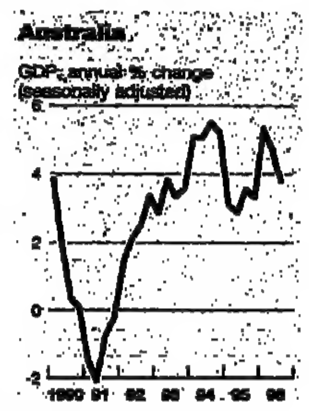
Australia's growth rate fell to 3.8 per cent year-on-year in the September quarter, down from a revised 4.7 per cent in the previous three months.

Gross domestic product during the September quarter alone rose 0.8 per cent, a modest improvement on the 0.1 per cent increase during the June quarter.

The poor June-quarter performance was attributed partly to uncertainty caused by the federal election earlier in the year.

The latest data showed private business investment rising fairly strongly, confirming the trend in other statistical data and benefiting from improved trade. Stocks rose significantly.

On the consumption side, public sector spending ebbed 1.2 per cent, having risen just 2 per cent over the past year. Private consumption increased 0.3 per cent, the lowest quarterly rise since June 1994.



Source: Datastream

Mr Peter Costello, the treasurer, claimed the figures provided "a solid foundation" for the economy, indicating "solid growth" in investment and exports on a "low-inflation base". The Labor opposition claimed the weaker growth figures for the most recent two quarters suggested the economy was growing at only 2 per cent.

The jobless rate has remained over 8 per cent since the last election. Most private sector economists foresee a further cut in interest rates, probably early in the New Year.

● The federal government got another ingredient of its 1996-97 budget through the Senate yesterday. A controversial bill to increase higher education charges and save the government A$1.7bn ($1.4bn) over four years passed largely unscathed, with support from the two independent senators.

Most of the government's first budget has now been secured, though the Senate has rejected proposals to withdraw some social security benefits from new immigrants. Ministers claim these measures would have saved A$400m over four years.

ADB to make $250m loan to state of Gujarat

By Mark Nicholson in New Delhi

The Asian Development Bank is poised to make a ground-breaking loan of $250m to the Indian state of Gujarat to support policy reforms.

It is the first of what the ADB hopes will become a series of state-directed programme loans to encourage economic restructuring.

The loan, which will be on commercial terms, will go before the ADB's board for clearance later this month. Although it will be routed through the central government in Delhi, which will bear the foreign currency risk, the funds will otherwise be passed on directly to the state government.

The ADB said it had selected Gujarat because of its government's acceptance of economic reforms. The north-western state is among the wealthiest and most industrialised in India, and one of the biggest recipients of foreign direct investment.

Its bureaucracy has one of the better reputations in India for efficiency and investor-friendliness.

ADB officials said the lending would support structural reforms to improve the state's revenue generation and management, moves towards disinvestment of state enterprises, and steps towards privatisation of infrastructure in the state, including moves towards reorganisation of Gujarat's state electricity board.

The loan would bring to more than $730m funds sanctioned by the ADB this year in India. Ms Shigeko Asher, the bank's Delhi representative, said the ADB expected total lending next year to reach $1bn and to include "one or two" further state-directed loans.

The ADB is exploring further policy-based lending to other states including Kerala, Karnataka and Tamil Nadu in the south and Rajasthan in the north.

Ms Asher said future state-based programme lending would follow discussions with other donors, particularly the World Bank, which has also begun to explore more direct lending to state governments, notably towards structural reform of loss-making state electricity boards.

The Gujarat loan will carry an interest rate of 6.82 per cent.

Ms Asher said that future loans to other states would vary in size according to each state's absorptive capacity.

However, the loans would be granted conditionally on the states' willingness to undertake structural financial and infrastructural reforms.

ASIA-PACIFIC NEWS DIGEST

Tsui to head HK exchange

Mr Alec Tsui, deputy chief executive of the Hong Kong Stock Exchange, will succeed Mr Paul Chow as chief executive from the beginning of February, the exchange announced yesterday.

The appointment would bring "professional continuity and a smooth transition," said Dr Edgar Cheng, chairman of the exchange. Hong Kong's return to Chinese sovereignty on July 1 next year was not a factor in the decision to make an internal appointment, he added.

Mr Tsui, who faced a challenge for the post from Mr Herbert Hui, head of the listings division, said the exchange would proceed along the direction already set. His three-year term is expected to focus on securing Hong Kong's position as the main regional market in face of rising competition, developing its role as a source of capital for the Chinese economy.

Dr Cheng and Mr Chow, who will pursue other interests, have stressed the need to develop links with China. *John Ridding, Hong Kong*

South Korean strike threat

South Korean trade unions yesterday threatened to stage the biggest national strike in years to protest against a proposed labour law making it easier to sack workers. But the government warned it was prepared to take tough action against the strike, set for mid-December.

The unions have criticised labour law revisions proposed by the government as mainly favourable to management. Korea will gradually relax curbs on trade union activity, but will weaken job security rights for workers. Voting began yesterday among members of the illegal Korea Confederation of Trade Unions (KCTU), which would receive official recognition under the new labour law. *John Burton, Seoul*

Karachi bank bombed

A second bomb in as many days, this time in a bank branch in central Karachi, yesterday put fresh pressure on Pakistan's caretaker government. Like Tuesday night's Lahore blast, the attack appeared designed more to sap confidence in the government's ability to maintain law and order than cause widespread damage. No one was killed, but 11 people were taken to hospital.

The blast site, only yards from the Sheraton and Pearl-Continental Hotels, was a forceful reminder of the violence that lurks below the surface in Pakistan's largest city. The government's rapprochement with the International Monetary Fund is proving harder than expected. Government borrowing from the banking system has continued to rise sharply and now stands at Rs76bn ($1.9bn), against an end-of-year target of Rs52bn. *Peter Montagnon and Farhan Bokhari, Karachi*

Japanese official arrested

Japan's former top health ministry official was yesterday arrested on suspicion of receiving Y60m ($530,000) in bribes from an operator of government-subsidised nursing homes. The arrest of Mr Nobuharu Okamitsu, who denies the allegations, comes a week after the Ministry of International Trade and Industry launched an inquiry into an unrelated scandal, senior officials' suspected relations with an oil dealer under arrest for evading tax on commission earned from questionable oil trades. *William Dawkins, Tokyo*

NEWS: INTERNATIONAL

Saddam, sanctions and black marketeers

Roula Khalaf reports on the ironies of the international efforts to unseat the regime in Iraq

A visit to Al Kifah street in central Baghdad helps to dispel any doubts as to why Iraq last week dropped objections to US restrictions on the oil-for-food deal, paving the way for resumed sales of Iraqi oil.

On Al Kifah, the black market currency traders casually conduct their daily illegal business. Young Iraqis push carts stacked with cardboard boxes, some filled with cigarettes, others stuffed with Iraqi dinars. On the pavement, shiny $100 bills change hands for stacks of newly printed dinars.

In an economy where most activity falls within the illegal sector, Al Kifah is what makes the system tick. Manipulated by the government, Al Kifah's rate for the dollar moves up and down according to the government's currency needs.

When Iraq decided late last year to talk about resolution 986, the oil-for-food deal allowing it to sell $2bn of oil over six months to buy food and medicine, the government is believed to have been facing a $1bn foreign currency shortfall.

Prevented since the 1990-91 Gulf war from selling its oil, foreign currency revenue is now derived from small quantities of illegal sales of oil and diesel fuel and remittances from abroad that pass through the official banking system. But these amounts are often insufficient to meet the estimated $1.5bn a year required for food imports.

Iraq had attacked resolution 986 as an infringement of its sovereignty. After all, Baghdad will receive only half the proceeds, as the rest will go to pay Gulf war reparations, the cost of the UN operation in Iraq and for food and medicine to the northern Kurdish region.

Despite its shortcomings, Iraq seems to have accepted the oil-for-food deal in order to obtain foreign currency. It has also been a convenient tool to manipulate the black market. As it turned out, the government has worked the black market to suck enough dollars out of circulation to make ends meet, according to western diplomats in Baghdad. The news that the deal was imminent boosted the local currency, making it easier for Iraqis to part with their cherished dollars, and relieving some of the pressure to print dinars and exacerbate inflation. After reaching an all-time low of 3,000 dinars to the dollar at the end of last year, it strengthened to 400 dinars to the dollar earlier this year.

Judging by the interest in a recent Baghdad trade fair, willingness to break sanctions is growing

There are signs that Baghdad has been facing a similar problem this autumn. Only a month ago, diplomats in Baghdad were again warning that the Iraqi central bank was attempting to intervene on the black market to buy dollars. This time, however, they believed the market was not responding as effectively as the government might have hoped. A piece of good news, such as renewed anticipation of oil-for-food, seems a convenient way of renewing confidence in the local currency. The dinar rate on the black market has risen from 1,700 at the start of November to just over 700 this week.

Some analysts suggest that if a simple announcement serves the purpose of relieving the foreign currency crunch, Mr Saddam may again scuttle the deal before it goes through.

However, just as oil-for-food is appreciated by the US as a means of reducing the moral pressure for a total lifting of sanctions, there is a realisation in Baghdad that the US will maintain the sanctions for years to come and that, in the meantime, other ways must be found for Iraq to survive.

The limited sales of oil will have the benefit of releasing the dollar funds now gained illegally and diverting them to other uses, more productive to the survival of the Iraqi regime. Meanwhile, oil-for-food can act as the opening of a larger window of opportunity as Iraq argues that producing oil and importing goods require rehabilitation of infrastructure, for example, and put pressure on the UN to agree to an increase in oil sales.

At the same time, it serves the purpose of whetting appetites for doing business with Iraq. Iraqi officials make clear that their strategy is to boost trade links despite the sanctions so as to render the embargo a pointless exercise. Judging by the interest that businessmen from China to Turkey showed at the recent Baghdad trade fair, willingness to break sanctions is growing.

In many ways, the Iraqi regime has already learned to accommodate itself to life under sanctions. While many are starving, throngs of children beg in the streets, and the fabric of Iraqi society disintegrates, a thriving smuggling trade, also directed by the government, has replenished Baghdad markets with everything from food to electrical goods. Youth Television, the channel run by Uday, Mr Saddam's son, now runs advertisements for new restaurants, flower shops and parties at private clubs.

With the UN estimating that 4,500 children a month are dying of hunger and disease, the only people who can afford to buy consumer goods or go to parties are those involved in the illegal trade of goods and currency. Ironically, this emerging class now has a vested interest in sanctions continuing, and in the survival of the Iraqi regime the sanctions were meant to weaken.

INTERNATIONAL NEWS DIGEST

Casino reopens in Lebanon

Casino de Liban, the biggest gambling and entertainment centre in the Middle East before Lebanon's 1975-90 civil war, reopened this week after 20 years. The famous casino, pictured above after its $50m restoration, overlooks the Mediterranean north of Beirut.
In addition to the 60 gaming tables, the lavishly refurbished casino offers five restaurants and a 1,200-seat theatre. A five-star 150-room hotel will be built shortly. In an attempt to lure back the international high rollers the casino offers three "super special rooms" where the minimum bet is $1,000. Casino de Liban opened in 1958 and featured entertainers such as Charles Aznavour and Johnny Hallyday. It hosted the Miss Europe pageant from 1960 to 1965.
Sean Evers, Cairo

Battle for UN job hots up

Asian candidates will become contenders for United Nations secretary-general unless strong African candidates committed to reform quickly come forward, western diplomats said last night.

Impatient with African members for refusing so long to withdraw support for Mr Boutros Boutros Ghali, despite the promise of a US veto, the diplomats said Asians contenders were already being mentioned. Mr Razali Ismail of Malaysia, president of the General Assembly, says that if Africa fails by default it should be his continent's turn to fill the position.

According to one senior diplomat last night, Japan could eventually be persuaded to offer Mrs Sadako Ogata, the much admired UN high commissioner for refugees, and use its deep pockets to lobby on her behalf.
Also mentioned are Mr Anand Panyarachun, former prime minister of Thailand and former UN ambassador, and Mr Jayantha Dhanapala, Sri Lanka's ambassador to the US.
Michael Littlejohns, New York

SA constitution approved

South Africa's new constitution was finally approved yesterday when the Constitutional Court accepted a revised text of the document initially passed by the Constitutional Assembly in May. The constitution will be signed into law by President Nelson Mandela next week at Sharpeville. Although the text was approved almost unanimously by the Constitutional Assembly, it was passed without participation of the mainly-Zulu Inkatha Freedom Party, which continues to demand greater regional autonomy.
Roger Matthews, Johannesburg

W3C picks standard for filtering Internet

By Paul Taylor

The World Wide Web Consortium – the Paris-based organisation which oversees the development of the Web – has formally endorsed a specification for filtering Internet content, opening the way to the adoption of film-style rating systems.

The consortium, which represents 156 members, said it had endorsed the Platform for Internet Content Selection (Pics) specification as a W3C recommendation – the highest "stamp of approval" afforded by the organisation.

Pics was spearheaded by the consortium as a practical alternative to the growing pressure for government intervention and censorship of the Internet.

In particular, it was created as a way to enable parents and schools to select the information which they consider acceptable for their children.

As such, the adoption of the Pics standard by the consortium represents an important effort by the traditionally anarchistic Internet industry to regulate itself.

While Pics does not itself rate Internet content, it provides a technical means for individuals and other organisations, including Internet service providers, to develop their own rating systems, distribute labels for Internet content and create standard software and services capable of reading content labels.

Microsoft, SurfWatch, CyberPatrol and other software companies have already developed Pics-compatible packages and Netscape, the leading Internet browser vendor, plans to incorporate Pics technology in its future products.

Among Internet service providers and online information services, America Online, AT&T WordNet, CompuServe and Prodigy all provide free blocking software which will be Pics-compliant by the end of this month.

"Pics is a major step forward in the evolution of the Web and is another example of how the W3C is working to make the Web easier to navigate," said Mr Tim Berners-Lee, director of the consortium and creator of the Web. "Pics will allow Web users to find information they want and avoid information they would prefer not to see."

Cairo finds smooth way to cut bread subsidies

By Sean Evers in Cairo

Riots ensued when the Egyptian government raised the price of bread nearly 20 years ago. So this time, determined to maintain an IMF-agreed budget deficit target of 1.1 per cent of gross domestic product, the authorities have chosen a more creative way to cut their E£2.5bn ($735m) bread subsidy.

Starting this month, the government will replace 20 per cent of the staple whole-wheat flour bread with domestic – and cheaper – cornflour. This action will freeze wheat imports at their current level of 6.5m tonnes a year and is expected to save the government $220m a year.

Mr Ahmed Gewili, Egypt's minister of supply, says: "Without subsidies Egyptian consumers would pay 14 piastres [5 US cents] for a loaf of bread instead of the current 5 piastres." The new scheme would not increase the price of bread, he said.

Egypt has to import more than a half of its total food requirements at a cost of $4bn a year.

Although the Egyptians produced 5.5m tonnes of wheat last year, they had to import more than that to meet domestic consumption, at a cost of more than $1bn.

The Egyptians are per capita one of the world's largest consumers of wheat, using more than three times the average rate in the US or Europe. Individual annual consumption has more than doubled since 1960, increasing to 180kg today – 160kg of it in bread.

Most imported wheat comes from the US, an estimated 5.2m tonnes a year, followed by Australia and France respectively with about 500,000 tonnes each.

The new corn-mix flour will be introduced gradually, to reduce the potential for a violent reaction from the more than 20m people who rely on bread for half of their calories.

The programme is first appearing in Greater Cairo's state-sponsored bakeries some time this week. If enough corn is collected, some districts in Alexandria will also be included.

The Egyptian Ministry of Supply hopes the scheme will increase domestic corn production by 500,000 tonnes a year, from the current 5.5m tonnes, as farmers, knowing they have a buyer in the government, will be encouraged to grow more.

NEWS: WORLD TRADE

Dublin's fair city lures Citibank

By John Murray Brown in Dublin

Ireland's growing reputation as a European centre for companies' back office operations was boosted yesterday when Citibank, the US bank, announced plans to create 950 jobs processing international transactions for its corporate clients.

Citibank's decision to centralise part of its global financial services in Dublin follows similar moves by Merrill Lynch, Barings, Bankers Trust, Fidelity, the US financial services company, AIG insurance and leading multinationals such as Microsoft, UPS, the parcel service, and Whirlpool and Electrolux, the home appliance manufacturers.

Citibank said it was attracted by Ireland's competitive labour costs, the grant package and good telecommunications. This one investment will account for a third of all the jobs created by the International Financial Services Centre, Dublin's special 10 per cent tax area which was established in 1986.

It also underlines the growing importance of service industries, which now create as many jobs as inward investment in manufacturing.

"The consolidation of back office operations is driven by cost savings. We're telling banks they can service their worldwide dealing rooms from one location," says Mr Michael Buckley, managing director of capital markets of Allied Irish Banks, Ireland's largest bank.

Most institutions, while tending to operate in a high-cost location – the so-called front office – have an incentive to relocate the less glamorous back office services to a low cost environment.

"Establishing such centres in Ireland can save companies up to 50 per cent on costs because of reduced overheads and economies of scale," said Mr Richard Bruton, the minister for enterprise and employment, announcing the investment yesterday.

Officials point to the efforts made in promoting business and language studies at school and university. Of the 32,000 new entrants to third level education in 1995, 30 per cent were enrolled in business and administration courses. Part of the funding for personnel training is being covered under European structural funds.

International Business Machines, the US computer company, uses its Dublin office to run its European treasury operations – the management of surplus cash within the company, trade transactions, and borrowing and lending within the group.

Bankers Trust has now selected Dublin as the site for the bank's European, Middle East and African money transfer custodial services. Barings relocated its entire fund administration operation out of Guernsey to Dublin.

In Merrill Lynch's case, the US bank persuaded the Irish authorities to change their legislation to allow the bank to "branch" all its international swap and derivatives business out of Dublin, thus avoiding tax which would have been incurred if the banks were treated as subsidiaries.

"For Merrill Lynch, it was the elimination of a disadvantage rather than the provision of an incentive," says Brendan Logue, director for financial services at the Industrial Development Agency, the government body entrusted with luring foreign investment to Ireland.

Citibank said it remained committed to its main back office in the UK at Lewisham where the bank employs 1,800 people.

Broader horizons for cruise liners

Finns break into growing market dominated by Italians, reports **Andrew Taylor**

The threat of an Italian shipyard stranglehold on the world cruise liner market was broken last week when Finnish yards won an order worth up to $1bn to build the world's largest leisure vessel.

Soon to be built by Kvaerner: an artist's impression of the world's biggest leisure ship

Royal Caribbean Cruise Lines has ordered up to two 130,000-ton ships from Kvaerner, the London-based shipbuilding and engineering group. The contract will provide its Turku yards in Finland with work until 2000.

The availability of temporary subsidies from the Finnish government worth up to 9 per cent of the construction price was crucial in winning the work, according to Kvaerner.

Mr Diderik Schnitler, executive vice-president at Kvaerner, said a low lira exchange rate and EU-approved subsidies provided by the Italian government previously had given the country's yards a substantial competitive advantage.

Italian yards, led by Fincantieri, previously accounted for about 40 per cent of the world cruise liner market. Some 31 vessels worth a combined $8.5bn are currently on order, according to GP Wild (International), the UK-based cruise consultants.

Subsidies for all forms of shipbuilding had been due to be phased out under an OECD agreement. But failure this year by the US government to ratify the pact means that they are likely to remain in place for at least 12 more months.

Cruise liners are one of the few areas of shipbuilding to enjoy consistent growth over the past decade. The market is dominated by European builders, with Italian and Finnish yards leading the way, followed by French and German builders. There is no sign of this pace slackening. A total of eight ships, including the latest two from Royal Caribbean, have been ordered this year, with a total value of $2.5bn, according to GP Wild.

Three have gone to Fincantieri, two to Kvaerner, two to Alsthom Atlantique of France and one to MTW Schiffswerft of Germany.

South-east Asian yards would also like to break into this growth market, given the substantial over-capacity in other areas of shipbuilding. Rivals to Kvaerner for the Royal Caribbean orders included Mitsubishi of Japan and Chantiers de l'Atlantique of France.

Demand for more and bigger cruise liners is being driven by several factors:

- rising demand for cruise holidays in North America, Europe and south-east Asia;
- holiday makers attracted to the higher quality and status provided by a new breed of super liners;
- larger ships with lower unit costs, meaning smaller operators cannot compete on price or quality;
- the introduction next year of new fire and safety regulations by the International Maritime Organisation, which has further increased the pressure on smaller operators with ageing fleets.

Holland America Line (HAL) warned this year that more small cruise line operators were likely to disappear following the failure last year of the Regency Cruise Line in the US. Smaller companies, unable to match the big investments of larger ones, may find it difficult to compete even in an expanding market.

Carnival Destiny, currently the world's largest cruise ship – costing $400m, capable of carrying more than 3,000 passengers and taller than a 12-storey building – was delivered last month by Fincantieri to the US Carnival group.

The vessel boasts the world's largest floating casino, four pools, seven restaurants and a 1,500-seat theatre and is too large to pass through the Panama Canal. It will cruise the Caribbean from its home port of Miami.

Mr Bob Dickinson, president of Carnival Cruise Lines, said: "The ship itself is the destination."

The North American cruise market, accounting for 4.38m passengers in 1995, is estimated by Mr Adam Goldstein, Royal Caribbean marketing vice-president, to have grown by 5-10 per cent this year, having stagnated in the previous two years.

The European market of 967,000 in 1995, of which the UK accounted for a third and Germany almost a quarter, has continued to grow at an annual 15-20 per cent.

Mr Peter Wild, managing director of GP Wild, said: "The North American market has the potential to double in size in the next decade, while Europe has the potential, given the size of its population, to be just as big. The south-east Asian market, meanwhile, has hardly been touched."

Shipbuilding yards on that basis can expect to see more cruise liner orders.

UK voices concern over US maize

By Alison Maitland in London

Britain yesterday warned the US not to try to force genetically modified maize on to the European market while concerns remained about its safety for human and animal health.

Mr John Gummer, the UK environment secretary, said in a BBC radio interview: "It is true that the Americans are trying to force this on to Europe without us making our own minds up about it.

"One of the important reasons for the EU is that we are strong enough to say to the Americans that we decide what we want in our food chain and not you."

The dispute over maize threatens to create a trade row with the US if it is not resolved soon. Only about 0.6 per cent of this season's US maize crop consists of the modified maize, but Commission officials have warned all US maize could be blocked if it cannot be segregated.

Senior US trade and agriculture officials have written to the European Commission in the past week expressing dissatisfaction at EU delays in opening the market for modified maize and for rice. The UK is one of a number of European Union member states to be concerned about the new maize, developed by Ciba, the Swiss chemicals group, to be resistant to a devastating pest.

EU approval has been delayed by these environmental and health concerns. The Commission is awaiting further advice from three EU scientific committees, due to report later this month.

UK concern focuses on an antibiotic resistance gene which has been spliced into the Ciba maize. Government scientific advisers say there is a slight risk that consumption of the unprocessed maize, used as animal feed, might confer antibiotic resistance to animals and thence to humans. There are no health concerns about the maize once it is processed because the genes are broken down.

The tough UK stance comes amid heightened consumer concern about food safety in Europe following the "mad cow" crisis.

Consumer groups and retailers in several EU countries have also protested against a US genetically modified soyabean, which has been approved by the EU as safe but is not segregated or labelled. Soya is used in 60 per cent of processed foods and there is concern consumers will have no choice about whether to eat the modified version.

The EU, mainly Spain and Portugal, imported about $500m of US maize last year. A good EU harvest this year means they are unlikely to require imports until the new year.

Israel to drop rules on Jordan trade

By Judy Dempsey in Jerusalem

Israel yesterday agreed to abolish a controversial trading system with Jordan and pledged to cut import tariffs, in an attempt to improve cross-border trade between both countries.

The decision followed a meeting on the Israeli side of the Dead Sea between Mr Natan Sharansky, the Israeli industry and trade minister, and Mr Ali Abu Al-Raqheb, his Jordanian counterpart. It followed months of complaints by Jordanian businessmen that Israel was imposing high tariffs on their imports, especially to the West Bank, to stifle competition and hold captive the Palestinian market, estimated to be worth $2bn.

"We have addressed these issues," Israel's industry and trade ministry said. "Trade is now bound to improve." Trade has amounted to $5m a month since June, when a cross-border trade accord came into effect.

Under the terms of the agreement, the "back-to-back" system will be abolished. Since June, Jordanian trucks have had to unload at the border crossing into Israel and reload on to Israel trucks, which denied them the price advantage of cheaper labour costs in Jordan. Israeli officials said the policy had been introduced for security reasons.

The policy also meant long delays at the small and congested border crossing between Jordan and the West Bank. Mr Sharansky has been trying to expand the border crossings as well as develop a free trade zone which would benefit the fledgling Palestinian economy, hard hit by Israeli closures that have been recently lifted.

Another complaint from the Jordanians was the higher tariffs they paid compared to Israeli exports to Jordan, which incurred a 10 per cent levy. The new deal will reduce tariffs.

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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 5 1996

IN BRIEF

Emu drives states to capital markets

The push towards monetary union is driving many of Europe's federal states, regions, provinces and cities to the capital markets to raise money, according to a report published yesterday.

Moody's Investor Services, the credit rating agency, says many of Europe's "territorial communities" feel they are being asked to shoulder increased responsibilities without having the means to carry them out. Page 20

Charge undermines Navistar earnings
Navistar said fourth-quarter earnings were wiped out by a one-off $35m charge taken to cover costs associated with abandoning its initiative for a new generation of trucks. The US truckmaker, under pressure from a cyclical decline in commercial truck demand, is in a disagreement with unions over the company's new truck strategy. Page 17

LucasVarity plans aggressive targets
The upheaval at LucasVarity is expected to intensify today as directors begin scrutinising detailed business plans from each division of the Anglo-US engineering group. Mr Tony Gilroy, president of the transition team, expects the seven divisions of LucasVarity to come up with aggressive return-on-asset targets and some bold proposals for alliances, acquisitions and organic growth. Page 18

Sun bids $159m for nursing group
Sun Healthcare Group, a US care provider, has made a recommended cash bid for Ashbourne, valuing the UK nursing homes group at £95m ($159m). The deal will make Exceler Health Care Group, Sun's UK subsidiary, the second largest nursing home provider by more than doubling its number of beds. Page 18

Saga to save $200m on tax concessions
Saga Petroleum, Norway's biggest oil explorer, is expected to save about $200m through tax concessions on its $1.23bn acquisition of Santa Fe, the Kuwaiti-owned UK North Sea oil and gas company. Page 14

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)				[illegible] France	345	+	15
Rises				**Falls**			
Berliner Kraft	440	+	8	AGF	158.6	-	6.5
Falls				Alcatel	460.0	-	15.1
Holzmann	372	-	8	Carrefour	3250	-	105
Ind Werke	342.0	-	7.5	Pernod Ricard	280.2	-	10.8
Karstadt	525	-	6	**TOKYO (Yen)**			
Schmalbach Lub	[illegible]	-	6	**Rises**			
Viag	554.2	-	17.6	KDD	7930	+	240
NEW YORK ($)				[illegible]	1010	+	42
Rises				**Falls**			
Amer Online	30¾	+	2¼	Chiyoda Corp	815	-	29
CKE Restrnt	34⅞	+	2⅞	[illegible]	890	-	22
Cntl Airlines B	30⅝	+	2	[illegible]	561	-	12
PHP Healthcare	25⅞	+	2¾	[illegible]	555	-	22
Providian	46⅝	+	2½	**HONG KONG (HK$)**			
Waters Corp	29⅞	+	3½	**Rises**			
LONDON (Pence)				[illegible] Hldgs	0.87	+	0.10
Rises				HK Parkview	3.12	+	0.57
Caffyns	318	+	25	[illegible]	0.35	+	0.08
Merrydown	107½	+	12½	[illegible]	0.42	+	0.30
TLG	103	+	10	[illegible] Intl	0.29	+	0.03
Wood (JD)	54½	+	6	**Falls**			
Falls				[illegible] Hldgs	0.39	-	0.04
Leslie Wise	87½	-	11½	**BANGKOK (Baht)**			
[illegible] Group	286½	-	26	**Rises**			
TORONTO (C$)				Royal Garment	19.5	+	1.75
Rises				Shangri-La	28.75	+	2.50
Artisan Corp	8.45	+	1.25	Sino-Thai Res	13.75	+	1.25
Colony Pac Expl	7.00	+	2.35	**Falls**			
[illegible] B	17.00	+	1.45	[illegible] Rubber	35.75	-	3.75
[illegible] Energy	31.25	+	5.75	[illegible]	33.0	-	3.5
Falls				Union Bk Bngkk	93	-	9
[illegible] Corp	35.25	-	2.50				
Cognos	42.6	-	4.0				
PARIS (FFr)							
Rises							
Chargeurs Int	282.0	+	11.8				

New York and Toronto prices at 12:30.

Brazil mining sell-off faces delay

Growing political opposition to Latin America's largest privatisation

By Geoff Dyer in São Paulo

The sale of Companhia Vale do Rio Doce (CVRD), expected to be Latin America's biggest ever privatisation, is facing delay because of increasing political opposition in Brazil.

The head of the National Bank for Economic and Social Development (BNDES), which is organising the privatisation, told a Brazilian newspaper that the sale of the mining giant would miss the planned schedule.

Mr Luiz Carlos Mendonça de Barros told Gazeta Merantil: "The postponement will be long enough to allow all the companies interested to have access to the information they need." However, political analysts said the delay, which had been widely expected, reflected government concern that opposition to selling CVRD would endanger a constitutional amendment allowing the president to stand for re-election.

CVRD, valued at a total of $10bn-$12bn, is one of the world's biggest natural resources groups, with huge reserves of iron ore and gold. It is also involved in aluminium smelting, steel production and transport.

In the first stage of the privatisation, the government had planned to sell a 40-45 per cent stake in CVRD ordinary shares to industry investors next February. However, this coincides with the likely timing of congressional votes on the re-election issue.

"The timing of the sale gave some people in congress the opportunity to blackmail the government," said Mr Murillo de Aragão of Arko Advice, a political consultancy in Brasília.

The sale of CVRD has become a key test of the government's commitment to privatisation.

Political analysts stressed that delays were common in privatisations in Brazil and that the CVRD sale would still probably go ahead, with March or April the earliest likely starting date.

However, in recent weeks several leading politicians have started to campaign against the sale, including two former presidents, Mr Itamar Franco, now Brazil's ambassador to the Organisation of American States, and Mr José Sarney, leader of the senate.

Mr Sarney, usually a close ally of President Fernando Henrique Cardoso, hinted that he would support the re-election amendment if the government halted the sale of CVRD.

In a further complication, Mr Luis Eduardo Magalhães, leader of the lower house and another key Cardoso ally, proposed last week that more shares should be sold to the general public, rather than to industry buyers, in order to defuse political opposition.

However, Mr Mendonça, who insisted that the delay had nothing to do with congressional politics, dismissed this option on the grounds that the government would get a lower price for its shares.

As well as the initial stake, the government plans to sell 10 per cent of the equity – including 5.1 per cent of the ordinary shares – to employees.

A further 17-20 per cent of the ordinary shares in the company will be sold to Brazilian and overseas investors later in 1997.

Commodities, Page 22

Trading at Matif, the French futures and derivatives exchange. Paris is competing with Frankfurt in a struggle to be the centre of the eurobond market

Matif plans euro-denominated futures

French derivatives exchange outpaces rivals

By Andrew Jack in Paris

Matif, the French futures and derivatives exchange, yesterday stole a march on its competitors by announcing plans for a new range of futures products based on the single European currency.

A working party of Matif members called for a three-month contract in euros to be introduced as early as April 1998, well before the planned introduction of the currency at the start of 1999.

The group also called for the creation of new one-month and five-year contracts denominated in euros, and raised the possibility of a 30-year contract to provide products with the broadest range of maturities.

The product modifications and new contracts are part of Matif's strategy to survive in what will be an increasingly competitive market among European futures exchanges after the advent of the euro. They come after London's Liffe market and DTB in Germany launched euromark futures contracts last month.

Matif's proposed three-month euro contract would be created by converting the existing three-month Pibor futures contract.

The working party also recommended that the existing 10-year notional franc contract should be converted into a euro contract with a face value of 100,000 euros, either on French government euro-denominated bonds alone, or on those of a number of governments issuing bonds in euros with maturities of 8½-10½ years.

The 10-year Ecu contract will either evolve into a 10-year multiple issuer contract in euros or into a pool of lower-quality financial instruments.

In a conference hosted by Matif in Paris yesterday, Mr Martin Hüfner, chief economist with Vereinsbank of Germany, said Paris had competitive advantages over Frankfurt in the struggle to be the centre of the eurobond market.

Mr Gérard Pfauwadel, Matif chairman, said: "For once we have excellent cards in our hands. We are the only European exchange to give such visibility to our strategy. Liquidity and timing in this business are extremely important."

The new three-month contract on euros would be based on the underlying average inter-bank rate offered by 20-30 banks within the currency area. It would carry a face value of 1m euros.

Matif is likely to offer incentives – such as reduced commissions – for those who shift quickly from the existing franc Pibor to the equivalent euro contract, in an effort to ensure the transition happens rapidly and liquidity is maintained.

Yesterday's announcement comes in the wake of the collapse in April of the planned co-operation between Matif and DTB.

Last month Matif announced an agreement with the Chicago Mercantile Exchange to trade its products late into the night.

Capital markets, Page 20

US burger chain loses fight over brand in Denmark

By Hilary Barnes in Copenhagen

A Danish frankfurter stall operator has inflicted what may be the first defeat on McDonald's in its efforts to protect its brand name.

The US hamburger chain, which pursues cases worldwide, yesterday lost its action against Mr Allan Pedersen, who runs a stall called McAllan in the Jutland town of Silkeborg.

Denmark's Supreme Court ruled that he did not infringe McDonald's right to the "Mc" prefix when he called his stall McAllan's.

The court said "Mc" and "Mac" were prefixes in common use and that protection could not be extended to a personal name, unless there was a risk the name could be mistaken for McDonald's. In this case there was no such risk.

Mr Pedersen earned the nickname McAllan after a birthday celebration many years ago over a bottle of *Macallan, a Scotch whisky*, and named his stall McAllan with the permission of Macallan.

McDonald's, which opened a restaurant across the street from McAllan, was not amused, especially when its protests resulted in a boom in business for its rival from local people irritated by its attack on Mr Pedersen.

Last year, after Mr Pedersen refused a request from McDonald's to stop using the McAllan name, McDonald's won its case in Denmark's Commercial and Maritime Court.

McDonald's lawyer argued that if other restaurants used the "Mc" prefix, the McDonald's brand name would gradually be diluted and fall into disrespect.

At the appeal before the Supreme Court Mr Pedersen's lawyer, Mr B. E. Jespersen, argued that the McAllan frankfurter stall, where customers stood outside, had little in common with a McDonald's restaurant.

He said McDonald's attempt to close the stall was an exercise in restraint of competition of "unacceptable dimensions". McDonald's could not claim an exclusive right to the prefix Mc, which originally meant "son of".

Singapore Airlines in talks with Sempati

By Manuela Saragosa in Jakarta and James Kynge in Singapore

Singapore Airlines, the national carrier, has begun negotiations to take a stake in Sempati Air, a private airline controlled by the youngest son of Indonesia's President Suharto.

Singapore Airlines said talks had begun on forming an "equity relationship" but gave no more details.

Industry analysts say the airline, one of the world's most profitable, has been looking for ways to expand in the booming Asia-Pacific region. Passenger and cargo traffic between Indonesia and Singapore has been growing rapidly and is expected to remain buoyant as Indonesia's economic growth continues.

Sempati's controlling shareholder is Mr Hutomo Mandala Putra. Other large shareholders include a military pension fund and Mr Mohammad Hasan, a timber tycoon and close associate of Mr Suharto.

The airline flies to several cities in Indonesia and recently started flights to Kuala Lumpur, Singapore and Perth in Australia. It has been planning an initial public offering for more than a year, but a recent downgrading of its debt by the state-owned rating agency Pefindo brought to light financial problems.

Sempati, known to be in urgent need of a capital injection, needs to restructure its debt. The IPO was originally scheduled for October, and its postponement is expected to worsen the company's financial situation.

Saudi prince pays £104m for Paris George V hotel

By Scheherazade Daneshkhu in London

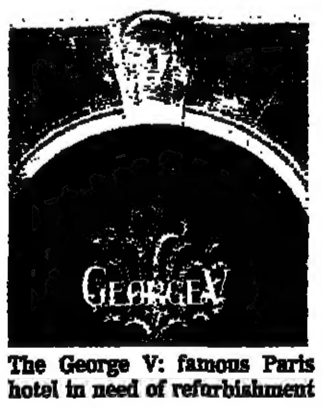
The George V hotel in Paris – one of Europe's most prestigious – has been sold by the Granada Group to a nephew of King Fahd of Saudi Arabia for £104m ($174m).

Prince Alwaleed bin Talal bin Abdulaziz al Saud trumped the Brunei Investment Agency for the property, which is close to the Champs Elysées in the heart of Paris.

The George V – where a standard double room costs FFr2,800 ($540) excluding breakfast – is in need of refurbishment after years of under-investment. Prince Alwaleed, whose interests include stakes in EuroDisney, the Four Seasons hotel group, the Plaza hotel in New York and Citicorp, the US bank, is believed to be considering spending up to £50m to restore the hotel to its former splendour. He said yesterday that it had the potential to be one of the most successful hotels in the world.

The 258-room George V is the second of the 17 Exclusive hotels to be sold by the television and leisure company, after the sale two weeks ago of the Hyde Park Hotel in London for £86m to Mandarin Oriental hotel group. Granada is disposing of the Exclusive hotels, with a book value of £801m, after a £3.9bn takeover of Forte, the UK's largest hotels group, in January.

The £104m price tag for the freehold in the depressed Paris hotel market is 13 per cent above the £92m book value and above the £100m at which the hotel was revalued by Christie & Co, the surveyors, during the bid. The George V made an operating loss of £200,000 on turnover of £16.9m in the year to January 31. Kingdom Establishment, Prince Alwaleed's holding company, said: "It may seem a full price but we believe ... we will get the returns we are looking for on this investment."



The George V: famous Paris hotel in need of refurbishment

It emerged yesterday that an earlier offer of between £700m-£750m by the prince for the whole Exclusives portfolio, which was rejected by Granada, was made in partnership with Marriott International, the Washington-based hotel group that is also bidding for many of the hotels for its luxury Ritz-Carlton brand.

The Brunei Investment Agency had been negotiating for the George V through The Audley Group, a newly formed UK-based company owned by the agency which is seeking to acquire some of the world's best hotels. The agency transferred ownership of the luxurious Dorchester hotel in London and the Beverly Hills hotel in California to the Audley Group, earlier this year.

COMPANIES AND FINANCE: EUROPE

Saga to save $200m on N Sea buy

By Robert Corzine

Saga Petroleum, Norway's biggest oil explorer, is expected to save about $200m through tax concessions on its $1.23bn acquisition of Santa Fe, the Kuwaiti-owned UK North Sea oil and gas company.

Mr Jan Peter Valheim, Saga finance director, confirmed that, under Norwegian law, interest on debt incurred to buy Santa Fe was fully deductable against Norwegian taxes at a marginal rate of 78 per cent.

Oil sector analysts said this was equivalent to a 3 per cent cut in Saga's cost of capital. The effect will be to reduce the cost of the acquisition by $150m. A further $50m in savings represents Santa Fe's UK tax losses.

Market concerns that Saga paid too much for Santa Fe were behind the slump in the company's shares yesterday when they resumed trading on the Oslo bourse after a two-day suspension.

The shares opened NKr9 lower at NKr96.50, before recovering to close at NKr100.5.

A sizeable number of Saga shares are held in the US, where the company was yesterday briefing leading shareholders.

Saga executives went to some lengths yesterday to dismiss fears that the company had paid too high a price for Santa Fe.

They pointed to the substantial value that should flow to shareholders from the acquisition, which should result in "more than 15 per cent return on equity after tax" at an average oil price of $18.50 a barrel. The latter is well below current levels but in line with many price forecasts for 1997.

The executives also pointed to the prospect of a significant increase in Saga's earnings per share, although Mr Valheim said exact figures would only be made available in Saga's results next February.

The effective date for the transaction is June 1996, so Saga should also benefit from what executives said would be "a substantial positive after-tax cash flow" at Santa Fe for the second half of the year.

No details were provided, but it was thought that figure could be close to $100m.

Saga also pointed to its record in five previous asset acquisitions in the Norwegian offshore industry.

Total reserves at those fields have risen by 35 per cent since the time of the acquisitions, in part because most field operators tend to use generally conservative estimates of reserves.

Executives said Saga's knowledge of Norwegian fields close to some of Santa Fe's assets should also prove valuable.

Saga's advisers said the low valuations placed on Santa Fe by some analysts did not reflect such "upside."

The lowest bids for Santa Fe were thought to be about $800m. The next closest bid – by Conoco – was thought to be in the region of $1.15bn.

Securitas sees few barriers to growth

The Swedish group has thrived on outsourcing growth and hard-pressed police

Securitas, one of Europe's leading security groups, practises what it preaches. At corporate headquarters in Stockholm, visitors must negotiate uniformed guards and thick glass security doors before gaining admission to management areas. Even the cloakroom coathangers, fixed to their rails, are theft-proof.

Such attention to detail has served the Swedish group well. Over the past decade profits have grown at an annual rate of 37 per cent and operating margins have widened from 1 per cent to 7.5 per cent.

Securitas has been an eye-catching performer in a traditionally unglamorous sector, and its shares have surged more than 80 per cent this year on the Stockholm bourse.

The company, whose largest owner is Latour, a Swedish investment company, with a 16 per cent stake, has seen its market capitalisation reach SKr13bn ($1.91bn) – leaving it poised to enter the FT500 list of Europe's largest 500 companies.

Mr Thomas Berglund, Securitas chief executive, traces the group's rapid growth to its decision in the mid-1980s to revamp its corporate management and focus on core security operations, while retreating from other fields such as contract cleaning. That step has coincided with new opportunities in the security market, amid an increasing tendency for companies to outsource their security requirements.

The outsourcing trend is bolstered by growing financial and time constraints on the police. In France, bracing itself for another outburst of terrorism after Tuesday's rush-hour bomb in Paris, officers may have more important things on their minds than watching for break-ins. According to Securitas, the *gendarmerie* refuses to respond to private alarms unless a break-in has been verified – creating a valuable niche for security service providers. The position is similar in Norway.

Police have better things to do than answer faulty burglar alarms. Emergency services at the Paris station where a bomb killed two people on Tuesday Reuter

Today Securitas's divisions encompass broad-ranging security services to companies, cash handling and alarm services for banks and retail clients, and home security. The biggest unit is its large company-related activities, accounting for 55 per cent of group sales. One lucrative area is provision of airport security. Securitas handles security at 20 airports in five countries, and is optimistic of winning new contracts.

In its core areas, Securitas has shown a strong appetite for acquisitions. This year the group has purchased 10 companies in six countries at a cost of about SKr1bn. It now has a presence in 14 European countries and sales are likely to be close to SKr9bn this year.

Mr Berglund dismisses suggestions that the company ought to consolidate before launching into a new round of expansion. Buoyed by a strong cash flow, Securitas will continue its march into European markets, he asserts.

One factor in Securitas' favour as it seeks to manage its rapid growth is its flat organisational structure. Only four management tiers separate Mr Berglund from workers on the ground. The Securitas model involves working through local management rather than drafting in Swedish executives to newly acquired subsidiaries.

The company identifies the difficulty of finding sufficient numbers of suitable staff as the only curb on its growth. Investment in personnel is substantial, representing 60 per cent of total costs, but has paid dividends. In the late 1980s, annual turnover of Securitas guards was as much as 100 per cent. This has been reduced to 30 per cent by increasing wages and improving training – a strategy which has eased recruitment costs.

Mr Berglund illustrates the point with the UK market, where Securitas acquired Security Express earlier this year. He criticises the UK for "low wages, poor training, and lack of basic values for the industry."

Mr Peter Lawrence, Nordic equities specialist at Kleinwort Benson, the UK investment bank, applauds the staff-oriented approach. "Securitas is one of the best, if not the best, managed companies in Scandinavia," he says.

Bolstered by a 40 per cent share of its domestic Nordic market, Securitas' prime focus is western Europe, where it has a 3 per cent market share. Although the group's organic growth was 6 per cent last year, it expects future expansion to occur principally via acquisitions.

Four countries – Germany, the UK, France and Italy – account for 75 per cent of the total European market. Securitas is present in all of these except Italy. But with outsourcing on the increase there, Italy would be a next logical step for the group.

Beyond that, the company is looking to expand eastward. It is already present in Poland and, says Mr Berglund, the Czech Republic could be next.

The company's rapid expansion has fostered high expectations among investors. Its heady price/earnings ratio of 35 would be vulnerable to an aggressive derating were Securitas to start missing targets, Mr Lawrence says.

However, Mr Hakan Winberg, Securitas chief financial officer, sees little to interfere with the group's prospects of expanding at an annual rate of 2 per cent above GDP growth, in line with overall market growth. "Of course, our rating creates expectations. But we see it as a stimulus," he says.

Greg McIvor

EUROPEAN NEWS DIGEST

Cemex subsidiary secures $850m loan

Valenciana de Cementos, the Spanish subsidiary of Cemex of Mexico, the world's third-largest cement producer, has secured a syndicated loan worth $850m. The loan, the biggest negotiated by a Spanish company, will be used to refinance existing debt at Valenciana and at other parts of Cemex, the company said. The loan, denominated in several currencies, has a maturity of seven years.

Cemex shares rose on the news. Three series of Cemex shares were among the top 10 percentage gainers on the Mexican bourse. Cemex B, A and CPO series were up 2.96 per cent, 2.88 per cent and 2.52 per cent, respectively. "This is great news – Cemex is a good company. Dealing in the stock is heavy, it's in demand," said a floor trader. "It was already cheap and foreign bargain hunters have stepped in to buy the stock."

Analysts' reaction to the deal was more measured, however. "It's good news but it just improves Cemex's repayment schedule. It's more of the same," said Mr Jaime Fernandez, an analyst at the Interacciones brokerage. "The fact that Cemex is rallying is due to it being a blue chip stock and, in the current situation, dealers are buying what they are familiar with." Analysts said debt was one of Cemex's main stumbling blocks, although the company itself was considered one of the best in its sector. *Reuter, Mexico City*

Mercedes-Benz on target

German carmaker Mercedes-Benz said yesterday it was confident of achieving its 1996 sales target of DM75bn ($48.6bn). Chairman Mr Helmut Werner told the German daily Handelsblatt he was "very satisfied" with the development of earnings.

He said the company would sell significantly more than 600,000 cars, and have unit sales of 340,000 commercial vehicles, as reported previously. Mr Werner said he was confident Mercedes' commercial vehicle unit would be profitable in 1998, although business in the division was still unsatisfactory. *AFX News, Frankfurt/Montvale*

■ Saab, the Swedish carmaker, said US November car sales rose 37 per cent from a year earlier, to 1,878. In the 11 months to November, sales were up 7.5 per cent at 25,931 cars. *AFX News, Stockholm*

Bezeq looks to multimedia

Bezeq, Israel's state-owned telecommunications network, plans to develop multimedia as its main business in a move to diversify and respond to growing competition in the industry, according to Mr Isaac Kaul, the outgoing director. Mr Kaul added that Bezeq would have achieved 100 per cent penetration of the telephone and cellular phone market in Israel by the end of the decade.

Bezeq plans to base its multimedia services on the transfer of voice, data, pictures and graphics, the main strengths of Israel's high-tech industry. However, Mr Kaul said it was up to Israel's communications ministry, which oversees Bezeq, to allow the company to introduce new technologies. The ministry has said it would open Bezeq to more competition, and even deregulate the domestic network. But it has still to decide whether to allow Cable and Wireless, the UK telecoms group, to increase its stake in Bezeq. C&W holds a 10 per cent stake, which it is interested in raising by a further 10 per cent. *Judy Dempsey, Jerusalem*

Tele Danmark sells card stake

Tele Danmark, the Danish telecoms company, has sold its 50 per cent interest in Danmoent, developer and manufacturer of a smartcard electronic cash payment system, to the PBS Group, the Danish banks' electronic payment service.

Danmoent cards carry a small electronic chip which can be "loaded" with credits from a bank account and are designed to be used to pay for small purchases. Visa recently bought worldwide rights to use the Danmoent system under the Visa name. *AFX News, Copenhagen*

KLM to renovate fleet

KLM, the Dutch airline, plans to spend Fl 103m ($59.5m) on modernising its fleet of 11 Boeing 747-300s, the newspaper De Telegraaf reported. The airline said the measures, aimed at delaying the need for new aircraft, would yield annual savings of at least Fl 18m. The modernisation is expected to ground aircraft for an estimated 48 weeks. *AFX News, Amsterdam*

Suez posts FFr60bn sales

Suez, the French financial and industrial holding company, has posted sales of FFr60.27bn ($11.5bn) in the nine months to September, against FFr69.76bn a year earlier, on a like-for-like basis. Banque Indosuez did not contribute to operating profit in the third quarter, after the divestment of Suez' 53 per cent holding in July. *AFX News, Paris*

Ebro Agrícolas ahead

Ebro Agrícolas, Spain's leading sugar producer, has posted 1996 net profit of Pta5.4bn (41.6m), up from Pta4.65bn a year earlier. Sales climbed 4.2 per cent to Pta160bn, the company said. *AFX News, Madrid*

Heidelberger Zement healthy

Heidelberger Zement, the German cement company, said sales rose 5 per cent to DM4.8bn ($3.1bn) in the nine months to September, buoyed by double-digit growth rates in the third quarter. For the full year, the company expects "positive influences" on operating results, barring extreme weather conditions in the autumn. In 1995, it reported net profit of DM469m on sales of DM6.049bn. *AFX News, Heidelberg*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Investors digest Thomson implications

David Owen and Bernard Gray report on ramifications of suspending the group's privatisation

Movements in share prices told most of the tale yesterday, as the implications of the surprise suspension of the Thomson privatisation started to sink in for the companies involved.

After the unexpected overturning of the French government's decision to award Thomson to Lagardère, the magazines to missiles group, Lagardère's shares plunged more than 10 per cent to FFr140 as soon as trading restarted on the Paris stock exchange.

The fall reflected the blow to the ambitions of Lagardère to dominate the French defence electronics business. Lagardère intended to dispose of the multimedia television arm of Thomson to Daewoo of Korea, but would have kept Thomson-CSF, the defence electronics group and pooled it with its own missiles and space business, Matra Défense-Espace.

The acquisition would have created Europe's largest defence electronics combine, with sales of about FFr60bn ($11.34bn), second only to Lockheed Martin of the US.

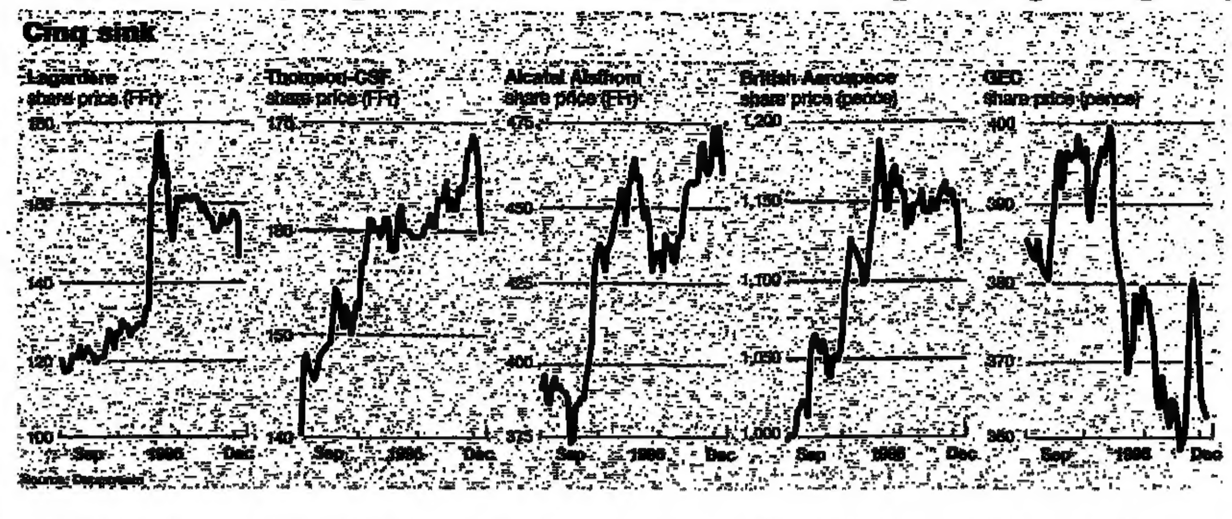
Although Lagardère said that it would form international joint ventures in relevant parts of Thomson's business – in missiles with British Aerospace or space with the UK's General Electric Company – Lagardère would have been very much in charge.

Ironically, as Lagardère's shares were hit because it may now fail to get Thomson, shares in Alcatel, the telecoms giant which had been vying with Lagardère to buy Thomson, fell because investors feared that its ambition could resurface.

By early afternoon, Alcatel's shares were down FFr15.10, or more than 3 per cent, at FFr460, as the market realised that Alcatel chairman Mr Serge Tchuruk's hopes of adding Thomson to his group's diverse range of businesses could yet be revived.

Anglo-Saxon investors in particular are sceptical about Alcatel's plans to buy Thomson, since they view the telecoms giant as a sprawling, under-managed group which needs to focus on its core telecoms business rather than crusade into new areas it knows little about.

Alcatel is undergoing a wide-ranging restructuring exercise, and investors want to see the results of this before the company even considers expansion.



The consensus was that both bidders would be invited to produce revised plans which took into account the French parliament's fears about the prospects for Thomson's multimedia business.

However, whether Lagardère could change the terms of its offer enough to remove the privatisation commission's reservations remains in question.

The commission was worried that France might not be able to enforce the undertakings on investment and job creation which Daewoo has given in its bid to buy the television manufacturing business. It may be impossible for Lagardère to re-jig Daewoo's participation in a way which will resolve the issue.

Daewoo officials in Korea were incredulous at the announcement that the sale of Thomson Multimedia had been suspended. When first told of the news by AFX Asia, Mr Yang Jae-yol, Daewoo Electronics president, said: "I can't believe this. We did not expect this kind of an outrage."

Mr Bae Soon-hoon, Daewoo Electronics chairman, had earlier said that, if the Thomson acquisition was blocked, Daewoo would nonetheless proceed with plans to build consumer electronics plants in France as part of an effort to gain European sales and avoid trade barriers.

But the rebuff to Daewoo is likely to be viewed as blow to national pride by the Korean media, which has already said that French opposition to the deal was largely based on racism.


Jean-Luc Lagardère: his group has suffered a setback in its plans to dominate the French defence electronics business

In the UK, share price movements were also revealing. The slump in BAe's shares, and the relative lack of reaction of GEC's investors, was a good reflection of the implications of the Thomson wrangle for the two companies.

BAe's 27p fall to £11.21½ was a clear indication of the blow to the company's international strategy. BAe has *formed a deep alliance* with Lagardère, with the two companies pooling their missile interests. They had intended to inject Thomson's missile business into the joint venture.

There was also a possibility that the two companies would co-operate on other aspects of Thomson's defence interests. Yet the decision to reject the current Lagardère bid throws everything but the existing Matra-BAe Dynamics missile venture into doubt.

The link-up with Lagardère is part of BAe's strategy for the rationalisation of the European defence industry. BAe is talking informally to most important European defence contractors in the hope that it can strike deals and alliances as a precursor to deeper mergers.

While its main area of expertise is in the aircraft business, BAe is also involved in making increasingly *sophisticated computer* and weapons systems operate together. The systems integration business is now spreading rapidly, from fighter aircraft to areas such as ships.

BAe is therefore interested in continental defence companies with similar skills, such as Thomson in France and STN in Germany. Yesterday BAe signed a deal to take part ownership of STN and run its naval systems business, but the difficulties with Thomson are a much more important blow to its systems integration ambitions.

While BAe has clearly suffered a set back, it not clear that GEC will benefit – one reason why its share price closed unchanged at 364p yesterday. GEC had ambitions to pool its defence electronics subsidiary, GEC-Marconi, with its counterpart Thomson-CSF to create a world scale defence electronics group.

Because of the great overlap between Marconi and Thomson-CSF's business, such a deal would have produced substantial savings by eliminating duplication of effort.

But, unfortunately for GEC, it was working with Alcatel on such a proposal, and Alcatel had lost the bidding war. Yet while Lagardère has been hit by yesterday's announcement, it is not clear that Alcatel or GEC will gain.

To the extent that the situation has become fluid, it gives GEC a hope that it can rekindle its ambitions for a grand alliance with Thomson. But the apparent determination in Paris to keep Thomson French may mean that neither of the UK's big *defence companies may benefit.*

The progress of rationalising in the European defence industry will also have suffered a further blow. Europe has lagged far behind the US in the consolidation of its defence industry as a reaction to the end of the cold war.

Despite the fact that the European market for defence goods is only half the size of *that in the US, it remains* badly splintered.

Effort in high technology research and development has been duplicated, while uneconomic, short production runs for bespoke equipment for different countries has forced up defence equipment costs.

Privatisation of the French industry was a necessary step towards mergers of defence companies across national boundaries which would allow rationalisation to occur.

The problems with Thomson have retarded progress towards that aim, and the entire European industry may be poorer as a result.

Additional reporting by John Burton in Seoul

New executives at Swiss insurer

William Hall in Zurich

Zurich Insurance, Switzerland's second-biggest insurer, has signalled it wants to shake up its financial performance by appointing a new chief investment officer and new chief financial officer.

Mr Markus Rohrbasser, 42, former chief executive of Union Bank of Switzerland's North American operations, will take over as chief financial officer, while Mr Laurence Cheng, 49, the Canadian head of Zurich Investment Management in Chicago, assumes the role of chief investment officer. They join the corporate executive board and will effectively replace Mr Rolf Hänggi, 53, who has done both jobs for the past decade.

Mr Hänggi, who announced in summer he would retire and become a vice-chairman of Roche, has overseen a near-quadrupling in Zurich's investment portfolio, to SFr106.9bn ($81.4bn). In the first six months of *1996, Zurich's investment* income rose 21 per cent to SFr3.1bn.

However, Mr Tom Bennett, an insurance analyst with Paribas in London, welcomed the decision to split the role of chief financial officer and chief investment officer. He said Zurich's investment performance over the past decade had been "safe rather than spectacular". The new appointments were a "sensi*ble move by a company* that wants to enhance shareholder value".

Mr Rohrbasser's appointment is the more surprising of the two. Until a year ago he was running UBS's important North American operations and, given his age, seemed to be marked out as a high-flyer inside UBS. However, the arrival of Mr Mathis Cabiallavetta, UBS's new chief executive, led to a management reshuffle. Mr Rohrbasser stepped down from the enlarged executive board to assume the management of special projects in its private banking and institutional asset management division.

Mr Rohrbasser's appointment is a sign of the growing competition between the big Swiss banks and insurance companies for executives. Mr Lukas Mühlemann, Swiss *Re's chief executive, takes* over as chief executive of Credit Suisse next month.

Mr Rohrbasser, like Mr Richard Thornburgh, Credit Suisse's new chief financial officer, has a strong corporate finance background.

Belgian steel partnership called off

By Neil Buckley in Brussels

Cockerill Sambre, Belgium's biggest steelmaker, has called off plans for a partnership with Usines Gustave Boël, a small privately-owned steel company, in what could be blow to the steel industry of Wallonia, Belgium's French-speaking southern half.

Cockerill Sambre, whose shares were suspended for three hours in Brussels yesterday pending an announcement on the partnership, also denied speculation that it might merge with Forges de Clabecq, an ailing Walloon steel company.

Plans for a BFr1.5bn ($46.5m) injection of state aid injection into Forges de Clabecq are being probed by the European Commission. Mr Karel Van Miert, EU competition commissioner, is yet to be convinced the steel maker has a viable future.

Unions at Usines Gustave Boël were later told that the company was likely to sign a long-mooted partnership agreement with Hoogovens, the Dutch steelmaker. Boël staff fear the deal could lead to closure of part of the business and job losses.

Cockerill Sambre said an examination of the profitability, sensitivity to the economic environment and financial needs of the groups had concluded that a partnership with Boël was not in the interests of either group.

"A lasting future for Boël could not be guaranteed without weakening Cockerill," the company said.

The Walloon steel industry has been hit hard by the economic downturn in neighbouring France and Germany in the first part of the this year, and the slump in world steel prices.

In September, Cockerill Sambre announced a first-half loss of BFr180m and launched a three-year cost-cutting plan involving redundancy for a fifth of the workers, or about 2,000 jobs.

It added that it was looking for a partnership with a similar-sized group to reduce costs.

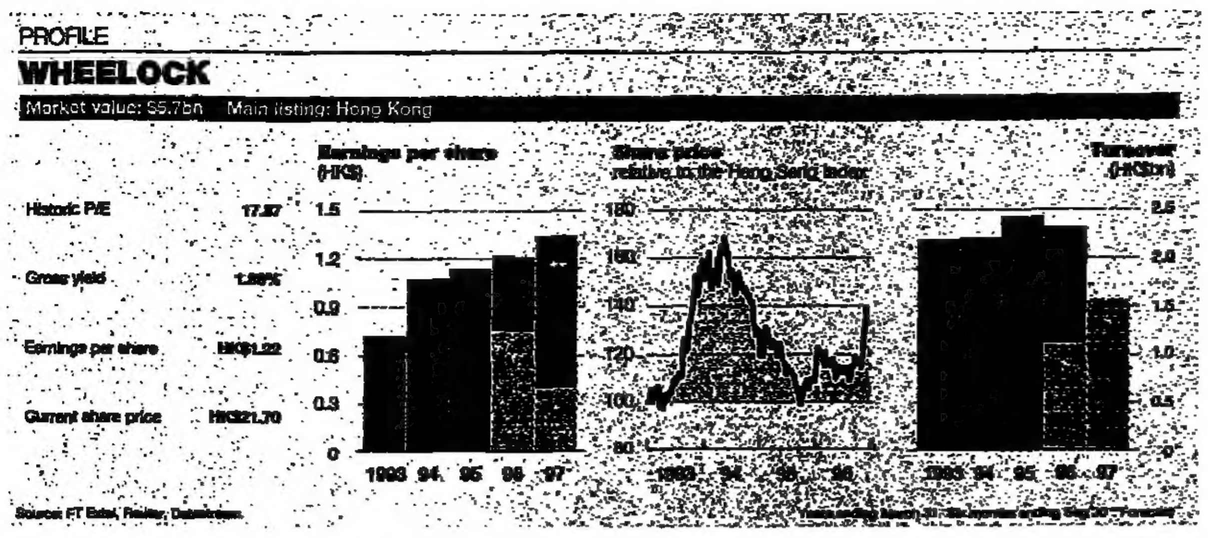
It emerged last month that Cockerill and Boël were considering such a partnership, aimed at safeguarding as many jobs as possible and supporting the Walloon industry. But Cockerill, which specialises in high-margin coated steel products, said yesterday Boël needed a partner with surplus capacity in semi-finished products, and which could also provide strong future prospects for utilising Boël's plant at La Louvière, southern Belgium.

It said the groups could not be partners owing to an "absence of complementary aspects and worthwhile economic synergies between the two companies".

Mr Robert Collignon, minister-president of the Walloon regional government, which remains the majority shareholder in Cockerill, had said earlier he was committed to preserving as much as possible of the Walloon industry, but did not want to Cockerill to enter a partnership which might weaken it.

Wheelock almost halved at interim stage

By Louise Lucas in Hong Kong



Wheelock, the Hong Kong holding company for the late Sir Yue-kong Pao's listed corporate empire, reported net profits for the six months to September nearly halved to HK$788m (US$101.9m).

The results were broadly in line with analysts' expectations. Mr Gonzaga Li, chairman of Wheelock, looked to Hong Kong's "generally improving economic environment" to fuel further growth.

Last year's figure of HK$1.51bn included non-recurring contributions worth HK$990.5m arising from asset swaps between group associates Wharf and New Asia, as well as investment disposals.

In the current first half, asset and investment disposals netted HK$188.9m, and a one-off loss of HK$70m was taken as a result of closing department stores owned by Lane Crawford, its retail arm.

Wheelock is still viewed by analysts as chiefly a property company, although it seeks conglomerate status on account of its interests in telecoms, ports – through associate company Wharf – and Wheelock's own retail and trading activities. Wharf accounted for some 70 per cent of the interim profits.

The improvement in Hong Kong's property market, which had been sluggish in 1994 and 1995, resulted in strong demand for flats. On the retail side Lane Crawford was hurt by the move into Singapore – its store there was closed in September – and flat consumer spending in Hong Kong.

Analysts question the strength of the trading side following the termination last month of the Wheelock NatWest investment-banking joint venture. The group is examining further opportunities in this area, and its brewery joint venture in China with Foster's of Australia is being expanded ahead of schedule in order to meet demand for "Largo" beer.

Earnings per share for the interim period slumped 47.9 per cent, from HK0.75 to HK0.391. Jardine Fleming Securities is forecasting HK$1.31 for the full year, up 7 per cent on the previous year's HK$1.22. Directors are proposing to maintain the interim dividend at HK$0.115.

● Wheelock Properties has been granted approval for a 2.5m sq ft residential project in Sham Tseng in the western New Territories, reports AFX-Asia.

The company added that its Plaza Hollywood shopping development in Diamond Hill would be opened in the first half of next year, with 90 per cent of space leased. The first phase of the residential part of the project, with an area of 1.18m sq ft, would be put up for sale in the second quarter.

CBA close to pensions deal

By Nikki Tait in Sydney

Commonwealth Bank, the Australian commercial bank, has emerged as the likely buyer of the Commonwealth Funds Management business, which is being sold off by the federal government. The fund manages about A$8bn (US$6.4m) of pension fund money for public servants.

Mr John Fahey, finance minister, said yesterday that Commonwealth Investment Services, a wholly-owned subsidiary of the bank, had been selected as the preferred bidder.

Towers Perrin, the international pensions and actuarial consultancy firm, had been chosen as the preferred buyer for CFM's "Total Risk Management" asset consultancy subsidiary.

No price for the likely deals was disclosed, with the minister saying that some final due diligence checks needed to be completed. "Final sales contract negotiations are expected to be concluded prior to Christmas," said Mr Fahey.

Other potential buyers at the outset were thought to include Lend Lease, ANZ, Mercantile Mutual and AMP, although a number of these were believed to have dropped out of the auction.

CFM's main clients include the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. It also manages pension fund money for Telstra, the large telecoms group, and Australia Post. The new conservative federal government is seeking to partially privatise Telstra.

Fund management business normally sells for about 1-2 per cent of assets under management. However, it has been recognised that cuts in Australia's public sector and uncertainty surrounding Telstra's ownership might make CFM a less attractive proposition.

S Korean utility sees profit fall

By John Burton in Seoul

Korea Electric Power (Kepco), South Korea's state-run electricity monopoly, yesterday warned 1996 net earnings would fall 34 per cent, from Won910bn last year to Won600bn ($721.5m).

Kepco blamed the earnings fall, its first in four years, on higher oil prices. The weakness of the Won against the US dollar has also increased interest costs on its mainly US dollar-denominated foreign debt.

Despite the decline, Kepco is expected to post the highest profits of any Korean company in 1996.

Sales are expected to rise 13 per cent to Won11,862bn, while expenditures will rise 14 per cent to Won11,000bn.

The rise in the international price for oil has lifted Kepco's raw materials cost by 16.2 per cent to Won2,942bn. Financial costs will grow 4.7 per cent to Won652bn.

Odds shorten on NSW betting shop flotation

By Nikki Tait

The New South Wales state-run chain of betting shops – better known as the TAB – could be privatised via a stock market flotation in the near future.

The NSW TAB is one of Australia's largest gaming organisations, running almost 1,500 off-track betting outlets and notching up turnover of A$3.6bn (US$2.87bn) last year.

Rumours of an impending sell-off by the current Labor state government have circulated for several months. The TAB's official policy has so far been one of "corporatisation" – putting the business on a conventional commercial footing – although some form of privatisation has never been formally ruled out.

Yesterday, a spokesman for the state treasurer was quoted as saying that no decision on privatisation had been taken. However, the state opposition moved quickly to say that it would be willing to support plans for a sale.

The state TAB in neighbouring Victoria was privatised more than two years ago through a flotation, and renamed TABCorp. The sale was surrounded by controversy, with the Victorian opposition – in this case Labor – campaigning strongly against it.

As a result, the Victorian government was forced to sell the shares more cheaply than it had hoped, and proceeds from the sale were only A$675m, compared with the A$800m envisaged.

Since then TABCorp shares have put in a stellar performance, rising from under A$2 shortly after the float to around A$5.65 now, and capitalising the group at about A$1.7bn. In 1995-96, it saw a 27 per cent rise in profits to A$87.2m. Turnover was A$6.2bn.

The NSW TAB could fetch around A$1bn if it were floated off in happier circumstances than those faced by the Victorian TAB. One incentive for a sale could be the prospect of additional expenses faced by the state government in the run-up to the Olympic Games, to be held in Sydney in 2000.

ASIA-PACIFIC NEWS DIGEST

Highlands and Inco in exploration link

Highlands Gold, the Papua New Guinea-based mining group facing an unwanted A$420m (US$336m) takeover bid from Canada's Placer Dome, has reached an agreement allowing a subsidiary of Inco, the world's largest nickel producer, to "farm into" two of its exploration areas in Indonesia.

The agreement means Ingold will take up to 60 per cent in the two areas, both of which are in Aceh, northern Sumatra, in return for funding exploration costs of US$10m. Although the deal was only announced yesterday, Highlands said it had been negotiated before Placer's bid.

Highlands has called in Baring Brothers Burrows to prepare an independent valuation of its assets, which it says should be sent to shareholders by early January. It repeated its assertions that Placer's offer failed to recognise the value in Highlands' two "advanced" – but as yet undeveloped – mining projects, at Frieda River and Ramu.

Nikki Tait, Sydney

Lion Nathan upbeat on China

Growing entry barriers for foreign brewers would enhance the value of Lion Nathan's two breweries in China, said Mr Douglas Myers, managing director. He said earnings before interest and tax at the Wuxi Brewery in southern China had almost doubled in the past year.

Mr Myers told shareholders at the annual meeting that the company's number one target was to improve earnings in its Australian breweries, which include Toohey's, Castlemaine and Swan. "The good news is that the Australian beer market, unlike New Zealand's, is not declining." He said the company had the financial capacity to reverse its slipping market share in Australia.

Terry Hall, Wellington

Indosat allays rate cut fears

Indosat, the Indonesian satellite telecoms carrier which recently proposed to cut the rates it charges AT&T and Singapore Telecom to carry their traffic, has dismissed concerns that this would hurt its earnings.

Indosat said the reduction in agreed rates with Singapore Telecom would translate into a 7.6 per cent savings in its payments to the group, as Indonesia has more outgoing calls to Singapore than incoming calls.

The reduction with AT&T will depress Indosat's telephone revenues by 0.57 per cent, but the company said the impact on on telephone revenues "will not be too significant", because traffic volume between the two countries was growing at between 15 per cent and 17 per cent annually. News of Indosat's accounting rate changes has reinforced wider concerns about increasing competition in the international telephone business, as US-based call-back services become increasingly popular.

Manuela Saragosa, Jakarta

Goodman Fielder sells unit

Goodman Fielder, Australia's biggest independent food manufacturer, is selling its European starch business – known as Latenstein Zetmeet – to Avebe, the Dutch co-operative group, for A$28m (US$22.9m).

Goodman said the business had been only a small part of its European food division, and was not providing an adequate return. It had sales of about A$72.8m in 1995-96, and accounted for about 6 per cent of total sales at the European food business.

Nikki Tait

Indonesia defends switch of Busang control

By Manuela Saragosa in Jakarta and Bernard Simon in Toronto

Indonesian authorities have defended their move to force Bre-X Minerals, a small Canadian exploration company, to turn over control of the rich Busang gold deposit in east Kalimantan to Toronto-based Barrick Gold.

Mr Umar Said, secretary-general at the department of mines and energy, said: "Our national interest is that natural resources should be developed as quickly as possible for our national benefit". Barrick and Bre-X told Mr Umar yesterday they had reached broad agreement along the lines of a government proposal last month. However, Bre-X said several outstanding issues required clarification from the government.

Under the government proposal, as relayed to Bre-X shareholders, Barrick would acquire 75 per cent of Bre-X's stake in Busang.

The government asked for a 10 per cent interest in the property, which is expected to be developed into one of the world's biggest gold mines.

However, Mr Umar denied the government had suggested a 75-25 split. "Our interest is that the Busang deposit must be developed," he said. "The share split is merely a matter of business."

Bre-X currently holds stakes ranging from 80 per cent to 90 per cent in the three zones comprising the Busang property.

The company, listed in Toronto, is valued at about C$4.8bn (US$3.6bn). Its shares climbed C$1.50 to C$20.20 in early trading yesterday.

Mr Umar indicated that Bre-X's relations with the government soured when it failed to inform the authorities of its indirect acquisition of a "contract of work" – the government licence needed to start mining a deposit – for part of the Busang property.

Bre-X obtained this contract of work when it replaced Montague Gold as a shareholder in Westralian Resources Projects.

"Why didn't they report [this] to the government? Is there anything they tried to hide?" Mr Umar asked.

The contract of work in question is valid only for Busang I, an area which contains only a small portion of the property's reserves.

Bre-X is still awaiting a contract of work for Busang II, the richest of the three zones.

Separately, Bre-X raised its estimate of Busang's reserves from 47m to 57.3m ounces, with a further increase to 60m ounces likely in early 1997. It forecast annual output at 1.9m ounces at an average cost of US$96 an ounce. Bre-X added, however, that "there is good potential to expand Busang production significantly beyond the 1.9m ounce rate".

The cost of building a mine, expected to come on stream around the turn of century, is estimated at about C$930m.

Venezuela invests hope in bank privatisations

Government intends the sell-offs to signal an end to the crisis in the country's financial system

When the Venezuelan government set prices earlier this week for the privatisation of the country's two largest banks, it hoped to mark the end of the financial crisis that plunged Venezuela into a prolonged economic recession.

Stakes of 80 per cent in Banco de Venezuela and Banco Consolidado are to be offered to pre-selected bidders in auction on December 19, with the remaining 20 per cent in each offered to retail investors through the respective branches of the banks.

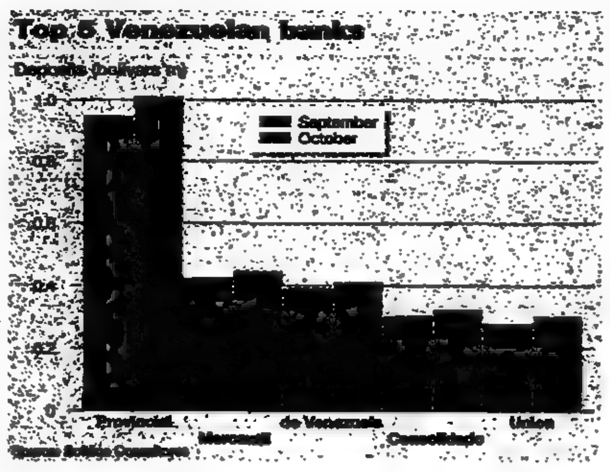
The state insurance guarantee fund, Fogade, set the base price for Banco de Venezuela at $266m and that of Banco Consolidado at $148m. A third, smaller, bank, Banco Tequendama, will be auctioned on December 20 with a base price of $48m.

Bidders for the larger banks include Spain's Banco Santander and Banco Bilbao Vizcaya, France's Banque Paribas, as well as Colombia's Banco Bogota and Banco de Colombia.

Most analysts agree that Venezuela's banks have improved considerably since more than half of them had to be bailed out by Fogade during the 1994 banking crisis. Standard and Poor's, the credit rating agency, said in a recent report that it "does not believe that the Venezuelan financial system will weigh any longer on its sovereign rating".

The agency said the forthcoming privatisation was an indication of the government's commitment to economic reform, and would introduce much-needed competition to the sector.

S&P also pointed out, however, that risk in Venezuela's banking system is still higher than elsewhere in Latin America, and is likely to remain so until regulation and supervision are tightened, and banks capture a higher share of total deposits and resume lending activity rather than hold on to government bills.



The bank sales could also influence the result of a heated national debate over the forthcoming disposal of part of the country's heavy steel and aluminium industry, worth $3bn-$4bn

Banco de Venezuela has seen a significant improvement in performance, especially following market-oriented reforms taken early this year. The bank reported a net profit of Bs26bn ($55m) for the first half of 1996, up from Bs4.4bn in the second half of the previous year.

These results are attributable in part to the bank's foreign currency hedge during last April's depreciation of the bolivar.

The bank has an equity-to-assets ratio of 12 per cent, just above the industry average in Venezuela of 11.6 per cent.

Mr Luis Inestroza Pocaterra, president of Banco Consolidado, the country's fourth-largest bank with deposits of Bs325bn, said the bank's debt portfolio had improved dramatically. "We're completely clean and operative and will register a net profit of some $60m this year," he said.

He added that the new owners of the two banks will face a much more competitive environment than in previous years. The objective of Banco Consolidado, he said, must be to expand its network of branches into the petroleum-producing areas of the country.

The transfer of Venezuela's banking system back to the private sector has not come without resistance, however.

This is the second attempt to sell Banco Venezuela; political opposition last August forced Fogade to call off the first attempt. Mr Teodoro Petkoff, planning minister, publicly denounced the existence of a "slush fund" allegedly set up by former bankers – some of whom are facing trial in New York over fraud – to be used to finance candidates in the 1998 presidential election campaign.

The sale of Banco de Venezuela and Banco Consolidado comes at a critical time in the government's privatisation programme. Last month's sale of a 40 per cent stake in the telecommunications company CANTV failed to raise the funds the government had sought.

The bank privatisation could also have a decisive influence on a heated national debate over the forthcoming sale of part of the country's heavy steel and aluminium industry, worth $3bn-$4bn.

Yet the privatisations are not without uncertainty for retail investors. Unlike the CANTV offer, there will be no incentives such as cash discounts or financing at below market rates. Retail investors placing an order during the book-building process must deposit 10 per cent of the minimum purchase amount of Bs100,000.

Some analysts say retail investors face considerable uncertainty and even disincentives. "They don't know what the share price will be, nor who will manage the bank," said one economic analyst in Caracas. He added that many Venezuelans still distrust banks and know too little about any improvement these might have made since their collapse. "A bank is not a telephone company. It's harder for people to judge," he says.

To compensate for such uncertainty, Fogade, backed by its global lead manager in the sale, Salomon Brothers, is offering retail investors the option of withdrawing their offer within two days after the auction and the fixing of the sale price.

Raymond Colitt

Charge wipes out earnings at Navistar

By Laurie Morse in Chicago

Navistar said fourth-quarter earnings were wiped out by a one-time $35m charge taken to cover costs associated with abandoning its initiative for a new generation of trucks.

The US truck maker, under pressure from a cyclical decline in commercial truck demand, is locked in a disagreement with its unions over the future of the company's new truck strategy.

The charge, which had been previously announced, put full-year earnings for the Chicago-based assembler of medium and heavy duty trucks at $65m, or 49 cents a share, down 64 per cent from $164m, or $1.83, for the 1995. Sales dipped from $6.1bn to $5.5bn.

Excluding the charge, Navistar earned $82m, or 72 cents – a 45 per cent decline, but in line with Wall Street's expectations.

"While our results can be attributed to a downturn in the industry, our performance last year was not acceptable," said Mr John Horne, Navistar chairman.

"We are now executing strategies to retool those businesses where performance is lacking, and to grow those where we are gaining competitive advantages."

Like other truck makers, Navistar is struggling to remain profitable in the volatile North American market.

Heavy truck demand is falling after reaching a cyclical high last year. North American manufacturers built a record 231,000 heavy trucks in 1995, and this year are projected to build 195,400.

However, Navistar projects that demand will dip 13 per cent next year to about 170,000 units, and industry analysts do not expect the cycle to swing upward until 1998.

The contracting market has intensified competition, and Navistar is now facing challenges to traditional markets such as school bus and fire-engine chassis from Freightliner, the Oregon-based subsidiary of Mercedes-Benz.

The nature of competition has changed in this cycle, with foreign-owned manufacturers such as Freightliner and Volvo's GM-White dominating the heavy-duty segment for the first time.

This has put pressure on Navistar to achieve competitive wage, benefit and productivity levels, and take a hard line with its unions.

To cut costs and raise productivity, Navistar is simplifying its assembly centres, and changing from an individual to a team assembly process.

Next year it will concentrate heavy truck production in Chatham, Ontario, and rework its main factory in Ohio to become a medium-duty truck centre.

The company is also expanding its presence in Mexico, and will build a $167m factory in Escobedo next year.

However, it has halted a planned $450m investment to build a new medium truck line at the Springfield, Ohio factory, after failing to obtain concessions from the United Autoworkers Union. The $35m charge to fourth-quarter earnings covers costs associated with abandoning that project.

Navistar is going ahead with a new heavy truck line, introducing several new products this year.

Continental Airlines shares jump 7% on talk of merger

By Richard Tomkins in New York

Shares in Continental Airlines, the fifth-biggest US carrier, jumped $1⅞ to $30⅝ in early trading yesterday – a rise of 7 per cent – after speculation that it was in merger talks with Delta Air Lines, the number three US carrier.

Neither company would confirm or deny the speculation, but according to US media reports, the two had been in talks for months about the possibility of merging to create one of the world's biggest airlines.

However, some doubt was thrown on the reports after it emerged in a filing with the Securities and Exchange Commission that Continental's top executives had sold 1.16m Continental shares, a substantial part of their holdings in the company, over the last few weeks.

In a letter to Continental employees yesterday, Mr Gordon Bethune, chairman and chief executive, and Mr Greg Brenneman, chief operating officer, said Continental had been involved in takeover rumours several times in the past.

"The bottom line is, our actions speak louder than words," they said. "We would obviously not have exercised stock options if we thought a merger was around the corner which would create a windfall for all stockholders."

A takeover of Continental would cost Delta $2bn at yesterday's stock price. It would create the largest airline in the US, with about a quarter of the domestic market, but it would be smaller than United Airlines and American Airlines in international services.

The US airline industry has recently been characterised by persistent speculation about a possible consolidation, because takeovers are seen as an easier path to profit growth than fighting for market share in today's highly competitive environment.

Last year USAir, the sixth biggest carrier, in effect put itself up for sale by holding merger talks with United and American, but the talks came to nothing because USAir's cost base was seen as unacceptably high. Continental is a more attractive target because it has a relatively low cost base.

Continental is part-owned by Air Partners, a Texan investment group headed by Mr David Bonderman, which holds about 20 per cent of the equity and 52 per cent of the voting stock on a fully diluted basis.

Some of yesterday's takeover speculation focused on the possibility that Mr Bonderman might be seeking to realise his investment, but Air Partners said it was "happy" with its holding and had no specific timetable for exiting.

RBC reports record earnings

By Robert Gibbens in Montreal

Strength in consumer and corporate lending, investment banking and money management helped Royal Bank of Canada earn a record C$1.43bn (US$1bn) in fiscal 1996, up 13.3 per cent from C$1.26bn a year earlier. Earnings per share rose from C$3.49 to C$4.09.

Assets at October 31 were C$218bn, up 19 per cent from a year earlier, confirming RBC as Canada's biggest bank. Total loans were up 14 per cent.

Return on assets was 0.74 per cent against 0.73 per cent a year earlier, and on equity 17.6 per cent against 16.6 per cent a year earlier.

The quarterly dividend is being raised 3 cents to 37 cents a share with the February 1997 payment. This is the third increase in 15 months.

Fourth-quarter net profit was C$376m, or C$1.09 a share, up 18 per cent from C$320m, or 90 cents. Return on equity was 17.9 per cent against 16.2 per cent.

During fiscal 1996, RBC bought a Canadian life assurance group and an institutional and pension custody business. It also acquired Richardson Green Shields for C$480m through its brokerage unit, RBC Dominion Securities. This acquisition will be included in fiscal 1997 results.

Non-interest expense during fiscal 1996 was up 10 per cent because of higher compensation costs at RBC, heavy investment in new businesses and raising efficiency, and expanding electronic systems and services, said Mr John Cleghorn, chairman. Intense competition and a lower prime lending rate reduced interest margins.

Williams prepares for acquisition trail

By Ross Tieman

The conglomerate Williams Holdings is shopping for acquisitions worth up to £500m ($835m) after selling a portfolio of 15 home products businesses to a management team backed by Candover Investments for £360m.

Mr Roger Carr, chief executive, said sterling's strength would give Williams added firepower in overseas markets. He aims to reinforce the group's fire protection, security products and home decorating businesses. A hostile bid is considered unlikely.

"We have certainly not raised this money with a view to keeping it in the bank." Mr Carr said. "We have varying opportunities on our radar at various levels of development."

Shares in Williams added 4¼p to 344¼p as brokers signalled their approval. Mr Richard Rae of ABN Amro Hoare Govett said: "Selling £360m of its businesses is a clear indication that the management is determined to reshape the portfolio to achieve faster growth."

A Candover-led consortium including Electra Fleming and Alpinvest Holding emerged as winner of a protracted venture capital auction organised by the Williams management, which has increasingly focused acquisition cash on its fire and security arms.

The buy-out company, Newmond, will acquire a portfolio of well-known UK brands including Aqualisa shower products, Heatrae Sadia and Valor heaters.

Newmond's chief executive will be Mr Mike Davies, currently a main board director of Williams. The company's finance director, Mr Mark Edwards, and the operations director, Mr David Goddard, will also come from Williams.

In 1995 Newmond made profit before interest and tax of £32m on sales of £266m. The assets are valued at £99m.

Following the pattern established in the earlier disposal of its Cortworth engineering business and SAIA Burgess Electronics, Williams will re-invest £57m of the proceeds in exchange for a 26 per cent stake in Newmond. Total equity will be £182m. Fifteen per cent of the equity will be held by 70 senior managers.

After repaying borrowings, Williams will have net cash of £40m following the disposal, with ample scope to take on debt to help fund acquisitions. It will realise a £90m profit on the disposal. Mr Carr said the sale price demonstrated the capacity of Williams to add value to the businesses it ran.

Bass surges 12% to £671m

By Roderick Oram, Consumer Industries Editor

Bass was reticent yesterday about revealing the full reasons behind its strong performance in brewing as it reported a 12 per cent rise in group pre-tax profits to £671m ($1.12bn) for the year ended September.

With competition regulators considering its bid for Carlsberg-Tetley, which will give it about 38 per cent of the UK beer market, Bass appeared to be playing its cards close to its chest.

It said it hoped Mr Ian Lang, the trade and industry secretary, would decide on the bid by Christmas.

Overall, brewing operating profits were up 9 per cent at £157m with, analysts estimated, Hooper's Hooch, the alcopop, contributing about £15m.

Volumes excluding Hooch were up 2.7 per cent and sales in the off-trade up up 11.8 per cent, prompting several analysts to wonder if Bass had picked up some low-margin business that Scottish & Newcastle had shed.

Most analysts believe Bass will give undertakings to the government, such as pub disposals, to secure approval for the Carlsberg-Tetley deal. A minority believe a Monopolies & Mergers Commission inquiry is inevitable.

The outcome will have a big impact on the current year's results. If undertakings are approved by, say, the spring, Bass will be able to integrate CT. But if an MMC inquiry delays amalgamation, Bass will only be able to equity account for half CT's profits – or about £30m.

The group recommended a final dividend of 17.3p making a total of 25p, up 10.1 per cent. Earnings per share were up 16 per cent at 50.4p.

Scottish seeks to lift allowed returns

By Simon Holberton

Scottish Power, the multi-utility, will seek an increase in allowed returns on its regulated electricity businesses from Professor Stephen Littlechild, the industry regulator, following changes to the taxation of long-life assets.

Mr Ian Russell, finance director, said yesterday that the capital allowance changes, announced in last week's Budget, would add 3-4 percentage points to the company's tax rate over the medium to long term. On a 10-year view, the changes would amount to about £25m ($41.8m) a year and increase its cost of capital. "We are preparing our case for Professor Littlechild."

Scottish Power also announced a 31 per cent rise in pre-tax profits to £167.1m on turnover up 60 per cent at £1.25bn, for the six months to the end of September.

The figures included a full six months' trading of Manweb, the north of England electricity company acquired last year, and two months' trading of Southern Water, the water services company acquired this year.

The dividend is being lifted 19 per cent to 6.17p. Scottish Power said it planned a full-year dividend of 18.5p, up 19 per cent, and thereafter would seek to raise dividends by 7 to 8 per cent in real terms.

Analysts were divided on whether or not the £1.7bn paid for Southern Water was too much.

"The results were excellent," said one. "They are getting more out of Southern Water than we expected."

Scottish Power said it would make annual savings of £52m after a review of Southern Water's operations. The outcome includes asset sales of £100m – to be completed by March 1998 – and a reduction of 700 in the workforce associated with Southern's core water and sewage businesses.

"They have demonstrated what sort of costs can be taken out of a water business, no one has shown that before," said the analyst.

Others were less charitable. "They over-paid for Southern Water and the results show it," one utilities specialist said. He pointed out that £8m of the £52m savings was a notional interest saving which no one would count.

'Transition' president sharpens knife

Tim Burt interviews the man behind LucasVarity's rationalisation plan

Mr Tony Gilroy, the man charged with the restructuring of LucasVarity, holds up one of the three briefcases in his office and says: "It's all in here. What's inside could show us how to double the size of this business over the next 10 years."

The contents include five-year financial projections and 10-year strategic manifestos from each division of the Anglo-US engineering group.

Their proposals will be discussed this morning by LucasVarity's "transition team" – a special committee of executives appointed to oversee the merger of Lucas Industries and Varity Corporation of the US.

According to Mr Gilroy, president of the transition team, today's meeting will mark the next stage of LucasVarity's restructuring – an upheaval which gathered pace with the announcement this week of a £250m rationalisation and disposal programme.

The details of that restructuring were based largely on recommendations from Mr Gilroy, who has earned a reputation in the first 100 days since the merger as the eyes and ears of chief executive Mr Victor Rice. When Mr Rice calls for cuts, Mr Gilroy is the executive who puts them into effect. colleague.

The double act has been together for several years at Varity, where Mr Rice was chairman and Mr Gilroy chief operating officer. "We have a certain chemistry," says Mr Gilroy. "Victor sometimes wants to force the pace, but I'm confident enough to tell him to wait for things to come through."

While the two have occasional differences, they are agreed on one thing – there is plenty of fat to cut from the enlarged automotive and aerospace components group.

As part of the shake-out, 13 non-core or underperforming businesses have been put up for sale, together employing 5,000 people.

A further 3,000 jobs, including a third of the senior management, are expected to go in a drive to save at least £120m next year – while tax savings should realise a further £65m.

Mr Gilroy – who before joining Varity was managing director of Land Rover and Freight Rover – maintains: "We are changing the culture in Lucas, which until now had no clear vision of where it was going."

But he is careful not to criticise former Lucas chief executive Mr George Simpson – who helped engineer the Varity merger before departing for GEC earlier this year. After all, they know each other well; Mr Simpson reported to Mr Gilroy for several years at Freight Rover.

"I'm not surprised at the stories of George tearing his hair out at Lucas," says Mr Gilroy. "The whole business was run as a series of islands; new group initiatives were sometimes just ignored – things were started and never finished."

He claims this week's restructuring announcement represents a clear signal that LucasVarity will be a changed animal.

The 59-year-old Irishman has now asked the seven divisions of LucasVarity to come up with aggressive return-on-asset targets and some bold proposals for alliances, acquisitions and organic growth.

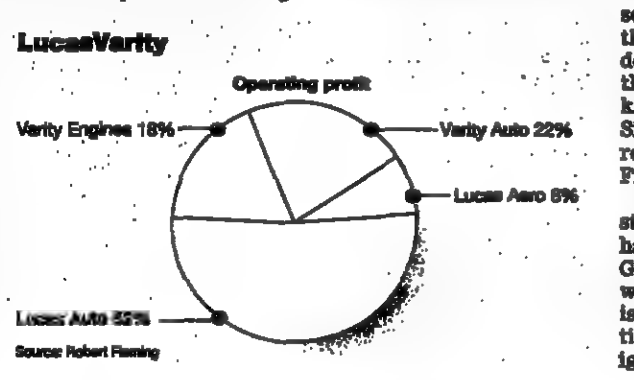
That mission has won praise from most City analysts, although some are concerned that Varity's top directors have tried to heap all the opprobrium on Lucas.

They point out that the merger was a marriage of necessity as much for Varity as its UK partner, particularly given the US group's weakness in Europe and lack of critical mass in some areas.

Other observers are also worried that the emphasis on restructuring has diverted management attention from current trading. Hence the 7 per cent fall in the share price this week.

Mr Keith Hayes at Goldman Sachs, however, believes the share price reaction was overblown as the sluggish conditions had been well flagged in the sector.

Mr Gilroy is unfazed. "We are certainly not taking our eye off the ball. Current trading and restructuring go hand in hand – the trick is to think about the future and look after today."



Lydia Van der Meer

Tony Gilroy: reputation as Victor Rice's 'eyes and ears'

Ashbourne agrees £95m US bid

By Jane Martinson

Sun Healthcare Group, a US care provider, has made a recommended cash bid for Ashbourne, valuing the UK nursing homes group at £95m ($158.7m) and providing further evidence of consolidation in the sector.

The deal will make Exceler Health Care Group, Sun's UK subsidiary, the second largest nursing home provider by more than doubling its number of beds. It follows the £253.6m merger of Takare and Court Cavendish in September which created the TC Group, the sector's biggest company.

Mr Chet Bradeen, managing director of Exceler, estimated that it would have 1.5 per cent of the market after the deal, compared with TC's 2 per cent.

He expected the UK to follow the more mature US care market, where industry consolidation had created two or three bigger companies, although they still had less than 15 per cent of the market between them.

Ashbourne shares rose 14p to 175p yesterday, close to the 177p a share offer price.

While Ashbourne's executive directors will remain with the enlarged company – which will keep the Ashbourne name – three non-executives will leave, including Mr Archie Walker, chairman. One adviser said they would receive a "very small pay-off".

Mr Andrew Richmond, sector analyst at Collins Stewart, said Exceler had paid a "full price" for Ashbourne. The price represents an exit multiple of 20.6 times 1995-96 earnings and is nearly three times sales.

BAe takes 49% stake in STN

By Michael Lindemann

British Aerospace has sealed a deal to take a 49 per cent stake in STN Atlas Elektronik, the leading German supplier of defence electronics, for about £104m ($174m).

BAe, which had been working to secure a stake in the Bremen-based company for several months, said the German business would strengthen its nascent marine electronics activities.

The STN business, which will operate alongside BAe's existing joint venture with Sema of France, will enhance BAe's efforts to become a leading force in a slowly consolidating European defence industry.

Rheinmetall, the German defence, automotive and office supplies conglomerate, will retain 51 per cent of STN, having paid DM550m ($359m) to acquire it from the receiver last month.

Badenwerk, the German utility, has helped to finance the deal, using the large reserves which these companies are legally bound to set aside to fund power station closures.

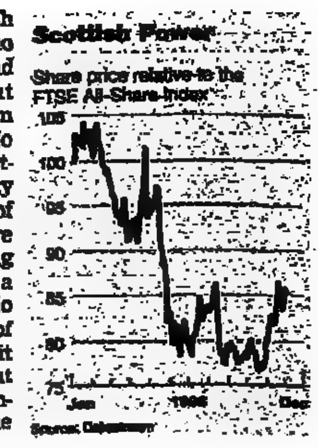
Marine electronics represent about 50 per cent of the business at STN, one of the few profitable arms of the Bremer Vulkan shipping group which went bankrupt earlier this year.

Apart from making marine electronic equipment such as torpedoes, sonars and mine-hunting systems, STN makes the fire control systems for Germany's Leopard II tank, the part of the business which Rheinmetall was most interested in.

STN last year reported net profits of DM32.5m on sales of DM1.45bn.

LEX COMMENT

Scottish Power



Yesterday was Scottish Power's opportunity to confound the sceptics and justify splashing out £1.7bn buying Southern Water earlier this year. No such luck. To be fair, Scottish Power is doing plenty right: selling the bulk of Southern Water's non-core businesses and cutting costs by a healthy £44m a year. This has little to do with the grandiose talk of building a multi-utility – it is just squeezing value out of an undermanaged company. But it is none the worse for that.

Indeed, the water regulator should study Scottish Power's promises with care. Not only do they demonstrate how much fat the sector still has; they also show how takeovers sharpen efficiency, benefiting customers in the end. The lesson is clear: rather than fretting about takeovers, the regulator should embrace them.

All the same, Scottish Power overpaid. For the sake of argument, take yesterday's claim that profits will be £52m a year higher than Southern Water would have managed. Discount this until the regulator snaffles all the benefit; add disposal proceeds and subtract restructuring costs and tax.

On this – probably charitable – basis, a takeover premium of £240m would have been justified. In fact, more than £600m over the market price was paid. True, Southern Water was almost certainly undervalued in the market. And gearing up the target's balance sheet will have brought some tax benefit. But even so, some shareholder value has surely vanished down the plughole.

NEWS DIGEST

Carlton to build pay TV interests

Carlton Communications, the television group, said yesterday it planned to build up its interests in pay TV both as a programme provider and as an operator.

Mr Michael Green, chairman, said the opportunities could "encompass cable, satellite and digital television". He declined to say whether Carlton would apply for commercial spectrum to operate digital terrestrial television services in addition to those planned by ITV.

He said Carlton was examining the investment opportunities offered by digital terrestrial expansion and the potential it created for establishing further pay TV services. He emphasised that any move would be designed to strengthen Carlton's core business: conventional terrestrial broadcasting, and making and distributing British-made television programmes internationally.

Mr Green's comments accompanied the company's announcement of a 20 per cent increase in pre-tax profits to £295.1m on turnover up 6 per cent at £1.68bn($2.8bn) for the year to September.

Raymond Snoddy

Two Dogs lifts Merrydown

Shares in Merrydown, the UK cider maker with the European marketing rights to Two Dogs alcoholic lemonade, rose sharply yesterday, closing 12½p up at 107½p.

Analysts suggested that investors were taking the view that Pernod Ricard, the French drinks producer, might become interested in a takeover. Pernod on Tuesday bought Two Dogs, the young Australian drinks group that sparked the international craze for alcopops.

Mr Paul Millman, managing director, said yesterday that Merrydown's contract to make and market Two Dogs in Europe was "a simple, performance based contract." He was pleased by Pernod's acquisition, which would take the brand into new markets and make it "a truly global proposition".

At present about 10 per cent of Merrydown's production of Two Dogs is exported to Europe. It is sold across the continent, but has made the most headway recently in Scandinavia and the Benelux countries. *David Blackwell*

Citigate makes market debut

Citigate Communications Group has made it to the stock market through a reverse takeover that values the public relations group at £28m ($46.8m). The target is Incepta, a media services group that is half the size of Citigate. It will issue up to a maximum of 133m shares.

Incepta shares were suspended yesterday at 21¾p pending conclusion of the deal at the end of February.

Citigate was formed in 1988 around a nucleus of people who broke away from Streets Financial, the public relations and advertising company that dated back to 1860 but went into receivership in 1992. It has developed into a diversified group, including contract publishing and advertising, and has 350 employees spread between the UK, the US, South Africa and south-east Asia.

David Blackwell

TLG changes structures

TLG, the industrial lighting equipment maker, is introducing product-based management structures in its European markets, scrapping its previous system of managing by geographic region.

The group, which reported interim pre-tax profits down 27 per cent to £8.3m ($13.9m), said it was reorganising its management to take advantage of pan-European product opportunities and to increase competitiveness and improve customer service. Weak trading conditions in most of its main geographical markets, particularly the UK, France and Germany, underminded profits in the six months to September 30. *Motoko Rich*

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Assoc Nursing	6 mths to Sept 30★	18.3	(13.5)	1.4	(1.08)	6.8	(4.7)	0.95	Jan 20	0.75	-	2
Avocet Mining	6 mths to Sept 30	8.7	(11)	3L	(0.054L)	9.4L	(0.1L)	nil	-	nil	-	nil
Bass	Yr to Sept 30	5,108	(4,541)	671	(599)	50.4	(43.4)	17.3	Feb 10	15.6	25	22.7
Blick	Yr to Sept 30	83.9	(56.8)	15.3	(14.2)	36.94	(34.2)	9.5	Apr 2	9	14	13
Bogod	6 mths to Sept 30	2.87	(2.75)	0.116	(0.078)	1.35	(0.91)	0.12	Feb 4	0.11	-	0.385
Bogod A	6 mths to Sept 30	2.87	(2.75)	0.116	(0.078)	1.35	(0.91)	0.24	Feb 4	0.22	-	0.77
Caffyns	6 mths to Sept 30	86.3	(83.1)	0.754	(0.291)	17.3	(5.8)	5	Jan 10	5	-	11.5
Calluna §	6 mths to Sept 30	0.779	(1.11)	2.03L	(1.58L)	3.7L†	(2.9L)	-	-	-	-	-
Carlton Comms	Yr to Sept 30	1,678	(1,580)	295.1	(246.7♠)	31.8	(26.1*)	6.72	Apr 7	3.72*	11.09	9.44*
Hadleigh	6 mths to Sept 27	15.2	(12.8)	0.953	(0.857)	8.6	(6.1)	2.25	Jan 10	1.75	-	5.75
Leigh Interests	6 mths to Sept 30	55.1	(80.8)	3.57	(4.23)	3.6	(4.4)	1.23	Jan 30	1.23	-	3.015
Orbis	6 mths to Sept 30	12.6	(8.46)	1.3	(0.818)	1.42	(1.2)	0.3	Feb 28	0.25	-	0.925
Pillar Property	6 mths to Sept 30	21.3	(13.8)	3.19	(1.12)	2.1†	(1)	1.6	Jan 10	1.5	-	4.7
Scottish Power	6 mths to Sept 30	1,248	(776.9)	167.1♠	(127.7)	12.39†	(11.19)	6.17	Mar 7	5.17	-	15.5
Starling Publish'g	6 mths to Sept 30	13.2	(17.4)	0.507♥	(2.8L♠)	0.2	(6.7L)	nil	-	nil	-	nil
TBI	6 mths to Sept 30	25.5	(19.2)	1.01	(0.811)	3.9	(3.3)	1.15	Jan 31	1	-	3.2
TLG	6 mths to Sept 30	186.9	(186.3)	8.3	(11.4)	3	(4.1)	1.4	Feb 14	1.4	-	4.3
Victoria Carpet	6 mths to Sept 30	18.9	(17.8)	2♥	(0.022)	27.2	(0.19)	-	-	-	-	2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Far East	6 mths to Sept 30★	384.1	(362.4)	3.97	(2.44)	2.82	(1.81)	-	-	-	-	1.3
Fleming Indian	Yr to Sept 30	47.7	(61.1)	0.244L	(0.234L)	0.27L	(0.28L)	nil	-	nil	nil	nil
Jos	3 mths to Oct 31	-	(-)	-	(-)	-	(-)	3.15	Jan 14	3.33	-	13.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. §USM stock. *Equivalent after adjusting for scrip issue.

هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS

Spate of profit-taking leaves Europe weaker

GOVERNMENT BONDS

By Philip Coggan in London and Lisa Bransten in New York

Signs of profit-taking after the recent strong run left government bonds generally weaker across Europe yesterday. Fading hopes of a German rate cut and caution ahead of Friday's US non-farm payroll figures did little to help sentiment.

While German third-quarter gross domestic product numbers were largely in line with expectations, they were accompanied by some strong industrial orders. Recent German data have provided rather mixed evidence of whether the economy is rebounding.

Few economists are expecting the Bundesbank to cut rates today, but it may be that yesterday's figures dashed any lingering hopes among investors. However, Ms Ros Lifton of HSBC Markets, said the fall in bunds was due more to profit-taking than to fundamentals.

On Liffe in London, much of traders' activity was devoted to rolling over from the December to the March bund contract. December fell 35 basis points and March 29. The yield on the 10-year issue rose to 5.66 per cent, an increase of 4 basis points.

Other continental markets tended to drift lower in line with bunds, although Italian bonds managed to outperform. Liffe's December contract on BTPs expired and the roll-over into March left that contract only 7 points down. The spread over bunds narrowed from 188 to 184 basis points.

Spanish bonds – like Italy's, a convergence beneficiary this year – fared less well with bonos dropping more than half a point. Bonos had reached record levels on Tuesday. The spread over bunds widened from 125 to 131 basis points.

A disappointing auction left UK gilts sharply weaker. The £2.5bn issue of 7 per cent 2002 bonds was covered only 1.7 times with a price tail (the gap between the average and the worst bid) of three ticks.

"A surprisingly bad result for a short-dated auction", said Mr John Shepperd, chief economist at Yamaichi International (Europe). "The UK market has looked relatively cheap recently and you would think there would be demand for a five-year issue."

The effect rippled out along the yield curve with, in the cash market, the benchmark 10-year issue down 21 ticks and the 20-year down 29 ticks. The March long gilt future on Liffe lost 22 ticks.

The setback in sterling on Tuesday also encouraged some profit-taking among gilt investors. The spread versus German bunds widened slightly to 188 points.

US Treasury prices were flat to modestly lower in quiet trading early yesterday as investors waited for Friday's report on November employment levels.

Near midday, the benchmark 30-year Treasury was off ⅛ at 101$\frac{13}{32}$ to yield 6.366 per cent, while at the short end the two-year note was unchanged at 100$\frac{1}{32}$, yielding 5.591 per cent. The March 30-year bond future gave up $\frac{3}{32}$ at 116$\frac{3}{32}$.

Traders paid little attention to the Federal Reserve's analysis of the state of the economy, known as the Beige Book, which was released at noon. The report was seen as somewhat positive because it indicated that, while labour markets remained tight, wage pressures had not increased in recent weeks. It also confirmed the opinion on Wall Street that the economy continues to grow moderately.

Mr John Spinello, of Merrill Lynch, said he was disappointed that the market did not move higher after the release of the Beige Book, but said investors may be starting to take some profits as the end of the year approaches. He said he expected activity to remain subdued until Friday, when the Labor department releases figures on November unemployment levels.

A report by the Boskin Commission, which said US statistics overstate inflation by about 1.1 per cent, was seen as positive for the market because it could decrease the growth of government spending on benefits that are linked to inflation. But that finding was already widely anticipated by the market.

● J.P. Morgan's Global Bond Index gained 1.43 per cent in dollar terms in November. Sterling's strength meant that the UK was the best performing bond market in US currency terms, while Spain was the top local currency performer.

For the year to date, Italy has been the best US dollar performer, with a rise of 28.8 per cent on the back of hopes that the country will an early member of the European single currency.

Emu spurs trend for states to tap external funds

By Conner Middelmann

The push towards monetary union is driving many of Europe's federal states, regions, provinces and cities to the capital markets to raise money, according to a report published yesterday.

Moody's Investor Services, the credit rating agency, says many of Europe's "territorial communities" feel they are being asked to shoulder increased responsibilities without having the necessary means to carry them out.

"In countries belonging to the European Union, central governments' drive to reduce budget deficits – and thus comply at some point with the 3 per cent Maastricht criterion – has further exacerbated this trend," it says.

The report claims that "the structural disparity between responsibilities and operating resources" is creating an ongoing need for territorial communities to fund their growing investment needs with external financing.

It predicts a "sharp surge in the market presence of a fast-growing number of territorial communities from western, central and eastern Europe, including countries of the former Soviet Union".

The main driving force behind the trend, Moody's says, is the process of political decentralisation taking place in Europe.

Meanwhile, the once-paramount role of traditional local-finance providers, such as France's Crédit Local, is withering amid increased competition following widespread financial deregulation and liberalisation.

Moody's says banks will be unlikely to satisfy all the financing needs of the territorial communities in the future, as the slim margins on such loans "will not be able to generate the kind of returns able to meet increasing shareholder demands".

At the same time, the legal and regulatory environment has become more conducive to debt issuance by territorial communities. In Italy, a legal and regulatory framework has been established for the issuance of regional and municipal bonds. In Poland, the big cities are financing infrastructure projects by issuing domestic bonds in a budding municipal bond market.

The report predicts that European monetary union will spur investor demand for pan-European territorial-community debt: as cross-border currency and interest-rate risks disappear, investors will focus more on credit risk. "Interest in creditworthy territorial community debt would clearly be keen," says the report.

At the same time, Emu would free some entities from having to borrow only in their local currency or market – as is currently the case in Germany and Belgium – and could lead to the creation of a "true pan-European regional and municipal finance market".

The report also notes that, while the risk of ultimate default among territorial communities is remote, there is a risk of defaults generated by delayed debt repayments.

European Territorial Community-Finance - An Outlook for the Late 1990s. Moody's Investors Service, 2 Minster Court, Mincing Lane, London EC3R 7XB. Free.

Israeli debut looks to set funding precedent

INTERNATIONAL BONDS

By Conner Middelmann

Israeli officials in London for today's launch of the country's debut eurobond said yesterday the debt was being issued to set a precedent for other borrowers.

"We don't need the money," said Mr David Brodet, director-general of Israel's ministry of finance. "But [we] want to establish a benchmark so borrowers from the business sector can raise funds."

In an effort to diversify its funding sources, Israel is early next year to tap the Japanese Samurai bond market – yen bonds issued in Japan by foreign borrowers. It is also looking at the French franc, D-Mark and sterling sectors. "We want to have a presence in a range of currencies to enable us to have full flexibility in the future to choose the right market," Mr Brodet said.

The eurobond issue, to be led by Merrill Lynch, is expected to be for $200m of five-year bonds, priced at a spread of about 50 basis points over US Treasuries.

A year ago, Israel issued a $200m, 10-year Yankee bond – dollar bonds issued in the US by foreign borrowers – which was increased to $250m after strong demand. It offered 76 basis points over Treasuries. Officials hinted yesterday the eurobond might also be increased if it saw strong demand.

However, some observers said the fragile state of the Middle Eastern peace process might damp investor demand. Israel's Yankee debut was buoyed by optimism over its peace initiatives and the booming economy, but the past year has seen economic slowdown and deteriorating relations between Israel and its neighbours since Mr Benjamin Netanyahu was elected prime minister in May.

However, Mr Brodet said: "We are dealing with sophisticated investors who understand the basic advantages of the economy of Israel, and who understand that Israel is basically committed to the peace process."

Elsewhere, the market saw another flurry of dollar offerings, including a $500m three-year global bond issue for Federal Home Loan Banks. According to Morgan Stanley, joint bookrunner with Goldman Sachs, some 60 per cent of the bonds – callable after one year – were placed outside the US.

Standard Chartered Bank issued $200m of subordinated, step-up floating-rate notes callable after five years. Lead Goldman reported demand from Asian banks seeking high-yielding assets, UK fund managers, and credit funds taking a view on credit-spread tightening.

The lira sector, meanwhile, saw another deeply discounted 30-year zero-coupon bond for Union Bank of Switzerland worth a nominal L1,500bn. This follows the success of Deutsche Bank's 30-year zero which has been increased repeatedly and now totals L5,000bn, and Tuesday's L1,000bn issue of 20-year zeros for the European Investment Bank.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fed Housing Fin Board(a)*	500	6.00#	100.00R	Dec 1999	0.15R	-	Goldman/Morgan Stanley
FUSA CCMT, 96-8, Cls A(f)‡	400	(f1)	100.00	Jan 2004	0.35	-	JP Morgan Securities
Standard Chartered Bk(b)‡	200	(b1)	100.00R	Dec 2006	0.375R	-	Goldman Sachs Intl
BPI Capital Finance(c)‡	150	(c1)	100.00R	undated	3.15R	-	Merrill Lynch Intl
Banco Credito de Nacional(d)	125	9.50#	99.90R	Dec 2004	0.875R	+375(5⅞%-99)	Chase Manhattan Intl
SWISS FRANCS							
Bayer Vereinsbank Overseas	150	4.00	101.75	Jan 2007	2.75	-	Bank von Ernst
GUILDERS							
ABN Amro Bank(e)	300	6.25	100.61R	Nov 2006	0.40R	+45(i)	ABN Amro Hoare Govett
ITALIAN LIRE							
UBS Finance	1500bn	zero	11.66R	Jan 2027	0.10R	-	Credito Italiano/UBS
PESETAS							
Finnish Export Credit	10bn	6.65	101.36	Jan 2007	1.75	-	Banco Bilbao Vizcaya
NEW ZEALAND DOLLARS							
Rabo Australia	100	7.00	101.09	Jan 1999	1.25	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable on 17/12/97 at par. b) Callable from Dec 2001 at par. b1) 3-mth Libor +140bp to Dec 01, then +90bp. c) Callable from Dec 2003 at par. c1) 3-mth Libor +195bp. d) Callable & puttable on 11/12/99 at 99.90% & 99.70% and on 11/12/01 at 99.90% and 99.70%. e) Fungible with Fl 600m. Plus 19 days accrued. f) First USA Credit Card Master Trust. Legal maturity: Aug 06. f1) 1-mth Libor +12bp. f2) Class B: $36.2m, 1-mth Libor +34bp, par, 12/1/04. i) Over interpolated yield.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.4590	-0.580	7.11	7.14	7.42
Austria		6.875	07/06	100.8900	-0.090	5.75	5.86	6.10
Belgium		7.000	05/06	108.6700	-0.360	5.78	5.94	6.12
Canada *		7.000	12/06	106.9300	-0.370	6.06	6.10	6.50
Denmark		8.000	03/06	109.7500	-0.280	6.56	6.73	6.86
France	BTAN	5.000	10/01	103.0000	-0.790	4.85	4.81	4.97
	OAT	6.500	10/06	106.4400	-0.310	5.64	5.78	6.00
Germany Bund		6.250	04/06	104.1700	-0.320	5.66	5.79	6.05
Ireland		8.000	08/06	110.2000	-0.330	6.54	6.65	6.94
Italy		9.500	02/06	113.6400	+0.090	7.42†	7.59	8.13
Japan	No 140	6.600	06/01	122.2354	+0.030	1.39	1.48	1.62
	No 182	3.000	09/05	104.7349	+0.190	2.35	2.47	2.64
Netherlands		8.500	06/06	120.4700	-0.380	5.65	5.78	5.97
Portugal		9.500	02/06	117.3200	-0.220	6.89	7.00	7.59
Spain		8.800	04/06	112.2800	-0.660	6.95	7.10	7.81
Sweden		6.000	02/05	95.6726	+0.150	6.70	6.96	7.20
UK Gilts		8.000	12/00	103-09	-6/32	7.04	7.03	6.97
		7.500	12/06	100-18	-19/32	7.42	7.48	7.62
		9.000	10/08	111-21	-21/32	7.50	7.59	7.73
US Treasury *		6.500	10/06	103-04	-14/32	6.06	6.12	6.58
		6.500	11/26	101-23	-21/32	6.37	6.43	6.87
ECU (French Govt)		7.000	04/06	106.8700	-0.400	6.01	6.16	6.37

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	5.61
Broker loan rate	7	Two month	-	Three year	5.71
Fed funds	5¼	Three month	5.02	Five year	5.85
Fed funds at intervention	-	Six month	5.19	10-year	6.07
		One year	5.37	30-year	6.37

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	129.70	129.54	-0.28	129.86	129.48	150,577	153,081
Mar	129.76	129.58	-0.28	129.88	129.50	38,292	84,887
Jun	128.60	128.42	-0.28	128.70	128.40	890	7,806

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
126	-	-	-	-	-	0.22
127	-	-	-	0.03	0.23	0.37
128	1.70	-	2.17	0.12	0.38	0.56
129	0.92	-	-	0.33	0.67	0.92
130	0.38	0.76	0.98	0.73	-	1.37

Est. vol. total. Calls 20,819 Puts 16,829. Previous day's open int. Calls 124,578 Puts 120,707.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.39	102.20	-0.35	102.53	102.25	152971	95656
Mar	101.50	101.47	-0.29	101.65	101.36	186780	162072

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10100	0.74	1.06	1.27	1.25	0.27	0.59	0.80	1.68
10150	0.44	0.77	0.99	1.04	0.47	0.80	1.02	1.97
10200	0.23	0.54	0.78	0.86	0.76	1.07	1.29	2.29

Est. vol. total. Calls 13058 Puts 8640. Previous day's open int., Calls 148185 Puts 127586

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	129.50	129.13	-0.41	129.51	129.05	14225	12995
Mar	128.45	128.64	-0.07	128.70	128.19	42742	86062

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12850	1.93	2.64	1.79	2.87
12900	1.69	2.41	2.05	3.14
12950	1.47	2.19	2.33	3.42

Est. vol. total, Calls 1362 Puts 3430. Previous day's open int., Calls 60785 Puts 61379

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	112.61	112.65	-0.58	112.61	112.02	72,393	70,041
Mar	111.88	112.18	-0.46	111.98	111.58	1,678	9,745

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111-23	111-08	-0-23	111-24	111-06	14134	26494
Mar	111-03	110-18	-0-22	111-03	110-18	63623	137100

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
110	1-00	1-33	1-55	2-20	0-59	0-59	1-17	2-26
111	0-29	0-63	1-20	1-55	1-25	1-25	1-46	2-61
112	0-12	0-36	0-57	1-31	1-38	2-00	2-19	3-37

Est. vol. total, Calls 3684 Puts 3803. Previous day's open int., Calls 50585 Puts 29089

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.70	98.54	-0.32	98.74	98.44	777	6,782
Mar	98.30	98.10	-0.32	98.30	98.20	240	1,480

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	116-10	116-00	-0-12	116-12	115-28	33,649	188,187
Mar	115-31	115-21	-0-12	116-01	115-21	383,918	382,838
Jun	115-12	115-07	-0-08	115-16	115-07	724	13,526

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	126.63			126.66	126.57	1191	n/a
Mar	126.16			126.24	126.15	2076	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Dec 4	Day's change %	Tue Dec 3	Accrued interest	xd adj. ytd		Low coupon yield Dec 4	Dec 3	Yr. ago	Medium coupon yield Dec 4	Dec 3	Yr. ago	High coupon yield Dec 4	Dec 3	Yr. ago
1 Up to 5 years (21)	120.70	-0.21	120.95	2.00	9.44	5 yrs	7.17	7.06	6.95	7.21	7.11	6.94	7.27	7.16	7.02
2 5-15 years (18)	149.51	-0.61	150.29	1.72	11.86	15 yrs	7.56	7.50	7.66	7.55	7.47	7.71	7.47	7.45	7.76
3 Over 15 years (7)	171.14	-0.70	172.35	2.99	11.63	20 yrs	7.63	7.56	7.74	7.59	7.50	7.77	7.48	7.47	7.82
4 Irredeemables (6)	196.97	-1.06	199.05	1.39	13.47	Irred.†	7.66	7.60	7.84						
5 All stocks (52)	144.40	-0.44	145.04	2.10	10.96										

Index-linked							Inflation 5% Dec 4	Dec 3	Yr. ago	Inflation 10% Dec 4	Dec 3	Yr. ago
6 Up to 5 years (2)	203.52	-0.11	203.75	1.04	5.28	Up to 5 yrs	3.13	3.09	2.73	2.47	2.43	1.59
7 Over 5 years (10)	197.11	-0.33	197.76	1.47	4.71	Over 5 yrs	3.47	3.44	3.61	3.27	3.24	3.31
8 All stocks (12)	196.72	-0.30	197.32	1.37	4.69							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28	Yr ago	High*	Low*
Govt. Secs. (UK)	95.41	95.48	95.63	94.90	94.90	96.22	96.34	91.59
Fixed Interest	117.82	117.70	117.38	117.15	117.04	114.49	117.82	110.74

Gilt Edged Activity Indices

	Dec 3	Dec 2	Nov 29	Nov 28	Nov 27
Gilt Edged bargains	92.5	78.5	101.8	90.8	102.2
5-day average	93.1	98.2	102.4	100.6	102.0

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 4

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	101⅝	101⅞	-⅛	6.15
ABN Amro Bank 7¼ 05	1000	104	104¼	-¼	6.74
African Dev Bk 7¾ 23	500	103¾	104⅛	-⅛	7.05
Alberta Province 7⅝ 98	1000	103⅛	103⅜		5.85
Spain 7¼ 03	4000	110	110⅛	-⅛	5.32
Volkswagen Intl Fin 7 03	1000	107½	107¾	-¼	5.58
World Bank 5⅞ 03	3000	103⅜	103¾	-¼	5.24
World Bank 6¼ 02	3000	105⅜	105⅝	-⅛	4.98
World Bank 7⅛ 05	3000	109¼	109¾	-⅛	5.71
Abbey Natl Treasury 8 03 £	1000	101⅝	101¾	-⅛	7.65
British Land 8⅞ 23 £	150	96	96¼	-⅛	9.25
Denmark 6¾ 98 £	800	99½	99⅝	-¼	7.04
Depfa Finance 7¼ 08 £	500	97¼	97⅝	-⅛	7.67
EIB 8 03 £	1000	102⅞	103	-⅛	7.41
[illegible]					

Remaining sections (SWISS FRANC STRAIGHTS, YEN STRAIGHTS, OTHER STRAIGHTS, DEUTSCHE MARK STRAIGHTS, FLOATING RATE NOTES, CONVERTIBLE BONDS): [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
[illegible]						

Other Fixed Interest: [illegible]

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Sterling slides further on new profit taking

MARKETS REPORT

By Simon Kuper

Sterling fell again on the foreign exchange markets yesterday, as investors took profits to reduce their risk levels in the UK currency.

The pound followed Tuesday's decline of 3 cents against the dollar by dropping another 1.3 cents to \$1.639. Against the D-Mark it lost 2.7 pfennigs to close in London at DM2.561. At one point sterling had lost 9 pfennigs in little over twelve hours, after hitting a four-year peak at DM2.64 in Asian trading early on Tuesday morning.

The dollar softened against the D-Mark, but held on to most of Tuesday's large gains.

The franc continued its recovery against the D-Mark, as Mr Jean Arthuis, French finance minister, persuaded traders that France would not devalue against other currencies within the European monetary system. He said he hoped the transition to the euro would take place at a rate of about FFr6.5 per euro, which is near the current rate.

But trading was thin after Tuesday's volatility and ahead of tomorrow's US non-farm payroll figures, which are expected to be strong.

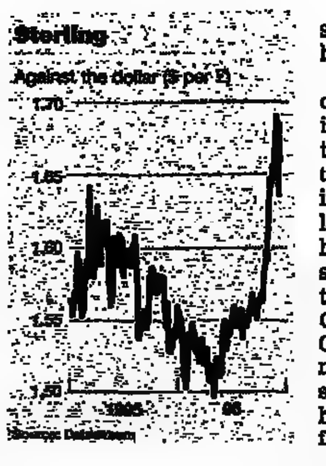
The Federal Reserve's Beige Book, which appeared after the London close, suggested moderate US economic growth and little sign of inflationary pressure. German third-quarter gross domestic product data made little impact on the markets.

The dollar fell 0.4 pfennigs against the D-Mark to DM1.563, still well above the DM1.50-DM1.55 range in which it had traded for weeks. The yen climbed Y0.6 against the dollar to Y113.1 and Y2.4 against sterling to Y185.4 as traders unwound purchases of high-yielding currencies that they had funded by borrowing yen earlier this year.

■ Sterling may have plummeted over the last two days. But it only lost half the gains it made against the D-Mark between November 11 and Tuesday morning, when it hit DM2.64.

This week many of the traders and investors who were long on sterling and getting worried have divested. There are now far fewer people holding pounds who do not want them.

Currency strategists say the crunch for sterling in the days ahead is the December 11 monetary policy meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, governor of the Bank of England. On balance, strategists expect Mr Clarke to raise base rates after the meeting. If he does, this should boost sterling. If not, the pound could take another hit, they say.



Mr Peter von Maydell, senior currency economist at UBS in London, said economic fundamentals suggested a rate rise. "Since the last hike in October, there have been nothing but surprises on the upside in terms of real sector strength," he said. However, political caution could dissuade Mr Clarke from a hike, strategists said.

They said the fundamental outlook for sterling is bullish. They pointed out that this week's slide was not due to any negative news emerging. There were some speculative reports that the Bank had intervened to weaken sterling but these had failed to convince most traders. Mr Clarke told the House of Commons that many businesses were worried about sterling's strength. However, he added: "But that is a floating exchange rate."

UK short-term interest rates are still higher than those of any other leading economy, and are expected to rise before those of the others. UK benchmark bond yields are still the highest of major European countries.

■ Both Mr Arthuis and Mr Carlo Azeglio Ciampi, Italy's treasury minister, said they expected leaders of European Union states to agree a stability pact at the EU's Dublin summit, which starts on Friday week. Currency strategists said that in the short-term a deal on a pact – setting out fiscal targets that member states must meet in the future – would raise confidence that European monetary union would happen on schedule. It would also make it more likely that Germany would accept Italy and Spain as participants, because it would be able to hold them to a strict fiscal policy.

That prospect should boost the lira and the peseta, and weaken the D-Mark, strategists said.

■ Pound in New York

Dec 4	—Latest—	— Prev. close —
£ spot	1.6390	1.6445
1 mth	1.6381	1.6437
3 mth	1.6307	1.6410
1 yr	1.6192	1.6249

■ OTHER CURRENCIES

Dec 4	£	\$
Czech Rp	45.9832 - 45.1135	27.5050 - 27.5250
Hungary	262.522 - 262.785	160.270 - 160.320
Iran	4917.00 - 4914.00	3000.00 - 3000.00
Kuwait	0.4917 - 0.4927	0.2998 - 0.3008
Poland	4.6948 - 4.7025	2.8650 - 2.8680
Russia	[illegible] - 9052.20	5521.00 - 5523.00
U.A.E.	6.0151 - 6.0184	3.6722 - 3.6730

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POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

UK INTEREST RATES

BASE LENDING RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9275	0.24	0.55	1.34	0.03	0.04	0.07
9300	0.06	0.73	1.13	0.10	0.07	0.11
9325	0.01	0.52	0.90	0.30	0.11	0.13

Est. vol. total, Calls 1650 Puts 502. Previous day's open int., Calls 128186 Puts 100092

Speculative market seen in second-hand vessels

By Deborah Hargreaves

A speculative market trading on the value of second-hand cargo carriers is developing in London, according to Mr Hugh McCoy, chairman of H. Clarkson, the shipbrokers.

"You can already buy a put option on a ship to lock in its value in a couple of years' time," said Mr McCoy. A put option gives the buyer the right to sell a ship at a certain price at a specified date in the future. "I can easily imagine a more speculative market in future ship values," he said.

Mr McCoy believes that before such a market can develop fully, a panel of shipbrokers would have to establish values for typical ships. The science of valuing cargo carriers and oil tankers is extremely complicated and few brokers are likely to give the same value for the same ship.

Ship values differ depending on where the ship was built, its tonnage, and technical standards. "Maybe you need a panel of people making a monthly award of values," Mr McCoy said.

Freight rates rose again yesterday, with the Baltic Freight Index up 6 points to 1,440 after recent weakness, but the freight market is likely to be depressed next year by a record order book for bulk carriers.

Some 35m tonnes of new bulk shipping capacity is on order, with 25m tonnes of new oil tankers. Mr McCoy expects world demand for bulk cargo capacity to rise 3 per cent next year, with 17m tonnes of new ships being delivered. At the same time, he does not expect to see as many ships scrapped as in 1996.

The large number of ships scrapped was a factor in the sudden spurt in freight rates in September, following six months of decline. Some 10.5m tonnes of carriers were scrapped until the end of November this year, compared with 4.3m tonnes last year.

Increased demand for grain carriers and re-stocking by steel mills around the world also pushed up rates in September and October, but freight rates have been weaker in recent weeks as some new ships begin to be delivered.

"But the market remains extremely volatile with no clear direction," Mr McCoy said. He expects rates to be volatile next year as the market absorbs the new capacity.

Mr McCoy believes that volatility in the freight market will encourage more companies to turn to hedging rates in the market, since the cost of freight for some bulk commodities such as iron ore and coal can be as much as half the delivered price.

Clarkson is making a market in forward freight agreements for companies that want bespoke contracts for hedging rates. Mr McCoy said there had been a surge of interest in the contracts.

Cuba upbeat on sugar harvest

By Pascal Fletcher in Havana

Cuba's sugar harvest has beaten the bad weather, and financial troubles caused by hostile US legislation.

Officials from the country said yesterday they were confident that the 1996-97 harvest – which started this week – would be higher than the 4.5m tonnes of last year.

"The harvest will be higher this year," Mr Nelson Torres, Cuba's sugar minister, told reporters. However, he said that the size of the increase would not match that of more than 1m tonnes achieved in the 1995-96 harvest.

Mr Torres declined to give a precise forecast for the current season, which began in eastern Granma province and will extend to the rest of the island during December and January.

Mr Torres said Cuba had obtained "sufficient" foreign financing to tackle the current harvest.

He declined to give details, but said the island had secured "a little more" than the $300m or so provided by foreign banks and trade houses, mostly European, in 1995-96.

But the Helms-Burton legislation passed in the US – which seeks to curb foreign investment in Cuba – had made it more difficult to obtain credits.

Mr Torres said Cuba needed to have a "super-efficient" sugar harvest this season to offset the effects of Hurricane Lili, which battered canefields in west and central Cuba in October.

Mr Peter Baron, executive director of the International Sugar Organisation (ISO), said he believed the Cuban crop could reach between 4.8m and 5m tonnes.

Options expiry fails to make impact on copper

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

The turmoil related to options activity that as late as last Friday threatened the London Metal Exchange copper market failed to materialise yesterday, when dealers had to decide whether they wanted to exercise options bought several months ago.

"It was a bit of a damp squib," said one trader, after the declaration passed uneventfully.

Since Monday morning LME prices have been slipping, and premiums for copper for immediate delivery have narrowed. This made it increasingly unlikely that the danger level – a strike price of $2,600 a tonne, at which a large volume of call options were believed to be unhedged – would be achieved.

Copper for delivery in three months ended yesterday at $2,208 a tonne, up $25, and the premium for metal for immediate delivery compared with three-month copper held steady at $170 a tonne.

Oil and refined product prices remained steady yesterday. The price of the world benchmark Brent Blend for January delivery was about $23.80 a barrel in late London trading – 3 cents up on Tuesday's close – as traders brushed aside reports of higher stocks in some regions of the US.

They noted that, although there was an overall rise in stocks, supplies of crude oil remained low by historical standards. In addition heating oil and gasoline stocks in key regions in the north-west US remained tight.

North-west European prices for gasoline and gas oil also firmed. Gasoline prices were supported by a continuing strike at three French refineries owned by Elf Aquitaine. Elf workers have urged colleagues at other refineries to stage similar walk-outs.

Gold's price in London rallied a little yesterday but remained close to its lowest level for three years. At the close gold was $370.05 a troy ounce, up $3.20.

Ms Rhona O'Connell, analyst at T Hoare & Co, suggested that the next few days could be crucial in the gold market. She pointed out that many buyers of physical gold tended to stand back whenever the price was moving convincingly in either direction, and came back to buy only after the price had stabilised. Ms O'Connell wondered whether these buyers see "good value" at present prices.

On the supply side, many speculators had taken advantage of weakening sentiment in September to "take the market by the throat" and aggressively sell short (bet on a fall in the gold price). There were also signs that the South African gold producers had been selling forward.

Ms O'Connell said that the gold price would probably fall again before bouncing back. "But it is hard to see the price at much more than $373 to $375 [an ounce]."

Mr Andy Smith, analyst at Union Bank of Switzerland, suggested that, as the gold price had been falling for 11 consecutive months this year, it would rally at the start of 1997.

"There is no logic to it. But some people will just close their eyes and buy," he said. Then the lessons learnt in 1996 would sink in – including the fact that central banks with their big holdings of gold could be a malign influence, not necessarily a benign one, and that the speculative funds could be fickle. Consequently, gold could be expected to fall again from March onwards.

Aluminium plants 'face closure'

By Kenneth Gooding, Mining Correspondent

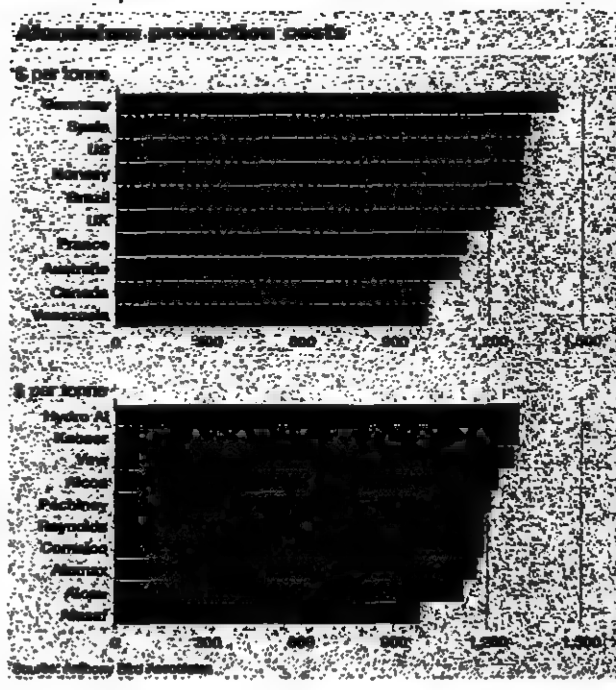
More than 4m tonnes of annual primary aluminium smelting capacity, or 17 per cent of the world total, will be either uneconomic or obsolete at normal metal prices by 1998, according to the Anthony Bird Associates consultancy.

"The problem will get rapidly worse from 2000 onwards," it warns in its 15th annual survey of aluminium production costs.

Mr Tony Bird, the author of the report, notes that aluminium producers in the past have been able to run their plants more efficiently and achieve impressive reductions in real costs. "But it is much harder to keep on doing that year after year," he says. "Aluminium companies do not always realise the scale of the task that will be facing them."

He suggests that many of these plants will have to close in the medium term – and that that has important implications for the rate at which new smelters are being built.

"Right now, the aluminium industry's rate of investment is woeful," he says. "There is nothing like enough new capacity in the pipeline both to replace dying smelters and also to satisfy growth in demand."



Mr Bird calculates that the average operating costs at primary aluminium smelters throughout the world in mid-1996 were $1,251 a tonne, a fall of 6.4 per cent from the 1995 average of $1,336.

Western smelter costs were down 7.2 per cent in the year to $1,198 a tonne and those at eastern European plants fell by 4.4 per cent to $1,395. "Thus western plants have improved their competitive edge slightly."

The report points out that many of the factors that caused the drop in costs will be short-lived – including present weak prices for alumina (the smelters' raw material), a strong US dollar, and low power costs in some of the contracts where the electricity price is linked to the price of aluminium.

The report shows Venezuela as the lowest-cost aluminium producing country with costs of $1,006 a tonne, followed by Canada at $1,013.

According to the report, Alusaf of South Africa, the world's newest producer which brought the western industry's biggest smelter into operation last year, has displaced Alcan of Canada as the lowest-cost corporate producer. The report says Alusaf's costs are $987 a tonne and Alcan's $1,125.

Aluminium Production Costs 1996. Bird Associates, 193 Richmond Road, Kingston upon Thames, Surrey KT2 5DD, UK. £4,800.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1509.5-10.5	1537-38
Previous	1496-97	1524-25
High/low	1504/1503	1541/1529
AM Official	1504-4.5	1530.5-31.0
Kerb close		1537-38
Open int.	249,510	
Total daily turnover	62,967	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1340-50	1370-80
Previous	1340-45	1365-68
High/low		1375/1370
AM Official	1348-50	1372-73
Kerb close		1368-73
Open int.	6,382	
Total daily turnover	1,180	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	675-77	683-85
Previous	674.5-8.5	683-5
High/low		689/680
AM Official	675.5-76.0	684-84.5
Kerb close		688-89
Open int.	38,982	
Total daily turnover	8,650	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6845-55	6930-40
Previous	6735-45	6820-35
High/low	6755	6950/6835
AM Official	6750-55	6840-45
Kerb close		6840-45
Open int.	47,907	
Total daily turnover	10,695	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6050-60	6085-95
Previous	6035-45	6065-70
High/low		6095/6060
AM Official	6005-45	6065-66
Kerb close		6110-20
Open int.	15,393	
Total daily turnover	3,143	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1042-43	1065-66
Previous	1025-26	1059-60
High/low	1039	1068/1062
AM Official	1039.5-40.0	1062.5-63.0
Kerb close		1068-69
Open int.	82,804	
Total daily turnover	17,695	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2367-72	2197-98
Previous	2340-45	2175-76
High/low	2355	2215/2178
AM Official	2360-62	2195-97
Kerb close		2207-08
Open int.	170,254	
Total daily turnover	73,759	

■ LME AM Official £/$ rate: 1.6424

LME Closing £/$ rate: 1.6367

Spot: 1.6367 3 mths: 1.6353 6 mths: 1.6328 9 mths: 1.6302

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	105.25	+0.20	106.60	103.50	1,530	8,533
Jan	104.25	+0.60	105.00	102.30	389	6,186
Feb	102.95	+1.00	103.40	102.90	90	1,282
Mar	101.75	+1.10	102.70	100.00	7,040	24,725
Apr	100.45	+1.00	100.30	100.30	11	698
May	99.05	+0.90	98.70	98.00	59	4,120
Total					8,804	60,865

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	369.50-369.80		
Opening	368.80-369.10		
Morning fix	370.40	224.458	489.410
Afternoon fix	370.90	225.814	490.330
Day's High	371.50-371.80		
Day's Low	368.70		
Previous close	368.80-372.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.84	6 months	3.25
2 months	2.84	12 months	3.36
3 months	2.83		

Silver Fix	p/troy oz.	US cts equiv.
Spot	292.15	482.50
3 months	296.30	488.35
6 months	300.80	494.35
1 year	310.40	508.60

Gold Coins	$ price	£ equiv.
Krugerrand	368-370	225-226
Maple Leaf	372.45-374.85	—
New Sovereign	86-89	52-54

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	370.7	+2.2	371.7	369.5	2,788	2,318
Feb	372.5	+2.1	373.5	370.0	44,376	97,423
Apr	374.5	+2.1	375.4	372.8	928	20,744
Jun	376.6	+2.1	377.9	375.1	488	12,595
Aug	[illegible]	+2.1	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	+2.1	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	378.2	+2.2	379.3	376.0	3,040	18,067
Apr	380.6	+2.1	382.0	380.0	781	8,474
Jul	383.5	+2.1	384.5	383.0	370	1,377
Oct	386.6	+2.1	386.5	386.5	21	233
Total					4,242	28,171

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	117.25	+1.80	118.50	116.50	48	808
Mar	118.75	+1.70	119.25	118.00	621	6,672
Jun	120.25	+1.70	120.50	120.50	40	332
Dec	122.00	+1.70	-	-	-	[illegible]
Total					760	7,881

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	479.6	+1.7	482.0	474.0	590	1,472
Jan	481.1	+1.7	482.0	480.0	3	24
Mar	486.2	+1.7	486.5	481.3	[illegible]	[illegible]
May	[illegible]	+1.8	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	+1.8	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	+1.8	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	25.13	+0.25	25.18	24.65	[illegible]	[illegible]
Feb	24.52	+0.19	24.56	24.16	[illegible]	[illegible]
Mar	23.95	+0.16	23.95	23.57	[illegible]	[illegible]
Apr	23.31	+0.08	23.31	23.08	[illegible]	[illegible]
May	22.76	-0.02	22.78	22.59	[illegible]	[illegible]
Jun	22.27	+0.01	22.27	22.18	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE

NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	94.25	+0.85	94.00	92.75	160	1,594
Mar	96.25	+0.85	96.15	94.05	75	2,070
May	97.60	+0.90	97.50	96.10	71	2,191
Jun	[illegible]	[illegible]	98.25	97.60	21	324
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Close	Prev
BFI	1440	1434

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	[illegible]	-8	[illegible]	[illegible]	21	764
Mar	[illegible]	-11	[illegible]	[illegible]	4,040	32,454
May	[illegible]	-9	[illegible]	[illegible]	736	18,132
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

Dec 3	Price	Prev. day
Daily	1043.37	1034.69

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

Dec 3	Price	Prev. day
Comp. daily	[illegible]	[illegible]
15 day average	[illegible]	[illegible]

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 4	Dec 3	month ago	year ago
1850.9	1854.7	1851.3	2155.8

■ CRB Futures (Base: 1967 = 100)

Dec 3	Dec 2	month ago	year ago
241.98	242.02	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Dec 3	Dec 2	month ago	year ago
220.47	218.87	202.23	186.70

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	65.900	-1.025	66.825	65.875	10,947	18,980
Feb	62.900	-0.975	63.825	62.850	7,520	28,751
Apr	64.575	-0.575	65.075	64.550	2,140	10,524
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

	Sett Price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne – Calls – – Puts –

	Jan	Apr	Jan	Apr
■ ALUMINIUM (99.7%) LME				
1500	46	91	19	41
1525	32	77	30	51
1550	21	64	44	63
■ COPPER (Grade A) LME				
2200	121	130	57	161
2250	94	110	79	190
2300	72	93	106	222
■ COFFEE LCE	Jan	Mar	Jan	Mar
1300	41	45	18	72
1350	17	30	44	107
1400	6	20	83	147
■ COCOA LCE	Mar	May	Mar	May
900	[illegible]	[illegible]	[illegible]	[illegible]
925	[illegible]	[illegible]	[illegible]	[illegible]
950	[illegible]	[illegible]	[illegible]	[illegible]
■ BRENT CRUDE	Jan	Feb	Jan	Feb
2300	[illegible]	[illegible]	[illegible]	[illegible]
2350	[illegible]	[illegible]	[illegible]	[illegible]
2400	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$21.77-1.87w	-0.050
Brent Blend (dated)	$24.23-4.25	+0.190
Brent Blend (Jan)	$23.80-3.82	+0.190
W.T.I.	$25.00-5.02w	+0.220

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$230-232	+5
Gas Oil	$227-229	+1
Heavy Fuel Oil	$123-125	+2
Naphtha	$232-234	+1
Jet fuel	$257-258	+1.5
Diesel	$240-242	+1

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	15.60-16.10	-0.40

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHERS

Gold (per troy oz)♣	$369.65	+2.65
Silver (per troy oz)♣	480.50c	+11.0
Platinum (per troy oz.)	$374.00	+2.00
Palladium (per troy oz.)	$117.00	+1.75
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.99r	
Tin (New York)	283.50	
Cattle (live weight)	107.59p	-2.89*
Sheep (live weight)	126.29p	-0.39*
Pigs (live weight)†	85.89p	+0.05*
Lon. day sugar (raw)	$258.30	-7.90
Lon. day sugar (wte)	$304.00	-5.20
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	79.75p	
Rubber (Feb)♥	78.75p	
Rubber (KL RSS No1)	317.0c	-1.0
Coconut Oil (Phil)§	$775.0y	-5.0
Palm Oil (Malay.)§	517.0x	-0.5
Copra (Phil)§	490.0	-2.5
Soyabeans (US)	197.0z	+2.0
Cotton Outlook 'A' index	78.45	-0.20
Wooltops (64s Super)	393p	

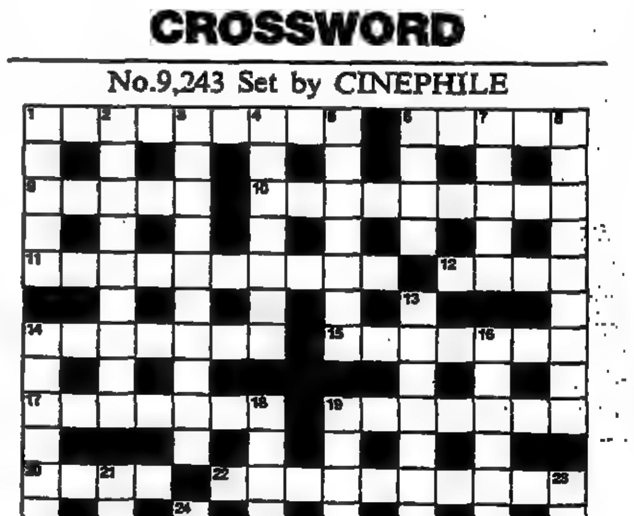
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Nov/Dec. x Dec/Jan. z Dec. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. † Based on 2,507 head of pigs sold.

Nuts and Seeds Prices from Kenkko US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round): RPPC new crop prices at 4,000 CFR. US almonds (shelled) 23/27 SSR: rising at 5,950 FAS California Dec shipment; extreme shortage of nonpareil variety. US walnuts LHP 20%: 6,000 up sharply FAS California; in-shell Hartley very difficult, price idea 2,550 FAS. Turkish hazelnuts standard No 1: unstable, moving up, price idea between 3,800 and 4,000 CFR. Turkish apricots number two: price up at 3,700 CFR; number four: 3,300. Indian cashews raw W-320: 5,650 CFR EMP up slightly; spot goods firming at 5,950 FCA Rotterdam. US pecans fancy junior mammoth halves: crop 1996, cheapest of US shelled nuts at 4,850 FOB; very active. Coconut: CFR at 1,500 for top Philippine goods but only shipments from March, stable.

JOTTER PAD

CROSSWORD

No.9,243 Set by CINEPHILE



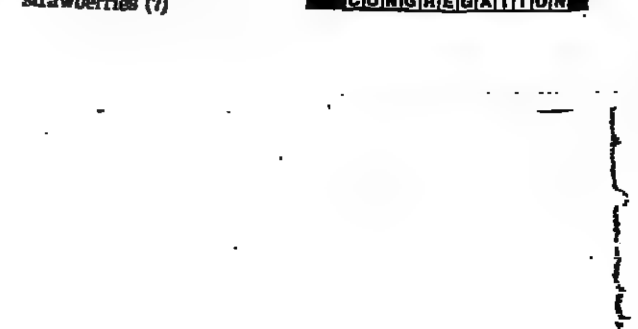
ACROSS

1 Musical Count, not English, takes old aircraft at low level (5,4)
6 Return of a little smoke in the morning is wonderful (5)
9 Volte-face taking something from future direction (1-4)
10 Aboriginal river bird of Australia (5,4)
11 Weaken discussion about single bed in Paris (10)
12, 14 19p – sorry, 11 – designed to fool prospector (4,7)
15 Weight in ring craft (7)
17 Length of Persian cat? (7)
19 Stiff cloth for male creatures (7)
20 A revolutionary sort of suffering (4)
22 Almost heavenly home for a student affecting the unconscious (10)
25 Target for committee on the moor (9)
26 Sculptor who is right with God (5)
27 Where one has authority to put the clock back (5)
28 Possible clue for "mount", on which to be snooty (4,5)

DOWN

1 Jump like an apprentice? (5)
2 Pole used by woodcutter to make sleeper (9)
3 Turn falcon into a portmanteau word? (10)
4 A conspirator's head turned by supplier of strawberries (7)
5 Flexible to the last, I can reveal (7)
6 The setter, healthy at heart, is an ass (4)
7 Post and cricketer in South Wales (9)
8 Key sort of noun for sort of brake: there should be an answer (9)
13 Fast days in spring, by order (5,5)
14 A theologian in a train is a snake (4-5)
16 Dry old champion of consumers singing to his love? (9)
18 Hungary's first two goals may be just the thing if they're hungry (7)
19 Speculator on the resurrection of God, a British type? (7)
21 Run a mile after kept women (5)
23 Weapon used a lot by King Arthur? (5)
24 Give assistance to a speculation (4)

Solution 9,242



JAPANESE INDUSTRY

The strongest manufacturers have moved production offshore to boost competitiveness, while service sectors are starting to take advantage of deregulation. William Dawkins reports

Resurgence of the elite

Japanese industry's halting recovery from the worst recession in 60 years raises the question of whether it has once again become a force to be feared in world export markets.

Judging by the recent chorus of alarm from competitors, it looks as if it has; the American Automobile Manufacturers' Association, for example, has been stung into action by a surge in Japanese exports, helped by the yen's weakness and advances in productivity. In reality, the industrial recovery is patchy, most noticeable among the big exporting elite.

The best managed companies in manufacturing sectors most exposed to international competition, like cars and electronics, have made great strides in efficiency since Japan's economic downturn began five years ago. But swathes of domestic industry, such as service companies – which have long been Japanese industry's weakest spot – and many small manufacturing subcontractors, remain grievously inefficient.

Japanese industry's latest profits figures show just how varied is the performance and uncertain the outlook. Pretax profits of nearly 870 quoted companies which have reported their half year results are up by 19 per cent, heading for a third successive yearly increase.

Yet this is a marked slowdown on the 23.5 per cent increase shown by all quoted companies in the same period last year. They expect profits to rise by just 9.3 per cent in the full year to next March, because of an expected slowdown in Japanese domestic demand. Pretax margins remain slim by US or European standards at, on average, an estimated 2.5 per cent of sales.

Car producers and electronics exporters have performed way ahead of the pack, with profit rises of a third or more; but service companies' profits are up by less than 5 per cent in the first half.

A look at the main factors driving Japan's industrial recovery explains why the upturn is, unlike previous broadly based recoveries, confined to the elite.

One feature has been the shift of production capacity to cheaper locations nearer faster growing markets elsewhere in Asia. In this way the larger and richer Japanese companies have boosted their own competitiveness in response to the long term decline of Japan as a base for heavy manufacturing.

Overall, the proportion of manufacturing carried out abroad has doubled in the past decade to 10 per cent, according to the Ministry of International Trade and Industry; but for companies with foreign subsidiaries the share rises to just over 25 per cent.

This, by definition, has benefited the migrants and harmed those they leave behind. Thousands of domestic subcontractors have lost their former main customers, apart from the entrepreneurial few prepared to follow them offshore. This, combined with a squeeze on suppliers' prices, has driven unprecedented numbers of small and medium sized companies to collapse. More than 1,000 companies went under in each of the past 20 months.

All companies have squeezed costs, a necessary step with long term benefits, but one which has, in the short term, weakened the domestic economy's recovery. Their main technique has been to cut recruitment and encourage early retirement. Both manufacturers and service companies have managed, in this way, to reduce the annual growth in fixed costs from a peak of 10 per cent four years ago to zero now, according to the finance ministry. Japan's social taboo against making redundancies has prevented more radical action.

Even so, the restructuring has gone deep enough to bring a rise in unemployment. The jobless rate of 3.3 per cent is low by international standards, but still high enough to dampen private consumption, which represents just over 60 per cent of the economy.

Other factors in the industrial recovery have come courtesy of the government and the Bank of Japan – and are all too temporary.

First, all companies have been able to borrow cash at rock bottom rates for more than a year, since the BOJ halved its official discount rate to 0.5 per cent in September 1995, the lowest in any advanced economy in living memory.

Cheap debt is more useful to Japanese companies than it would be to Western competitors, because the Japanese are so highly geared. Mr Andrew Smithers, a London-based economist, estimates that Japanese non financial companies rely on debt for 80 per cent of capital needs, compared with around 50 per cent in the US.

But the luxury of cheap borrowing will not last for long. As soon as the BOJ is convinced that the Japanese economic recovery can sustain itself, possibly by the middle of next year, it will raise interest rates.

Low Japanese interest rates have also helped to drive up the dollar against the yen, by nearly 40 per cent to around Y111 from its April 1995 trough of Y79.75, at which level vast tracts of Japanese industry were uncompetitive. Big exporters like Toyota, Honda and Sony have benefited from the yen's weakness, on top of their own productivity gains.

The other temporary boost has come from a massive government programme of public works spending, climaxing with a record Y14,200bn fiscal package in September last year, mainly of benefit to construction and steel companies. Their sales will probably be squeezed when fiscal policy starts to tighten next year, as the cash from the most recent package runs out.

Where does this mixture of self improvement and artificial support leave Japanese industrial competitiveness?

The progress looks impressive, but again, only among the elite. Almost 90 per cent of top manufacturing exporters now claim to be profitable at an exchange rate of anything from less than Y100 to Y120 to the dollar, according to a recent survey by the government's Economic Planning Agency. Two years ago, only just over half thought they could survive at such a rate.

Even more remarkable, 23 per cent say they can now break even at less than Y100 to the dollar, once thought to be the line between life and death for Japanese exporters. In 1994, only 0.5 per cent thought they could turn a profit at that level.

Domestic manufacturers and service industries – very few of which export – have cut costs too. There are also signs that service industries are starting, with help of gradual economic deregulation, to tackle the low productivity created by decades of officially supplied protection from competition.

Mr Ryutaro Hashimoto, the prime minister, last month for example, pledged sweeping reforms to the financial industry by 2001, in an attempt to reverse the decline in the competitiveness of Japan's banks, stockbrokers and insurance companies. He wants to deregulate stockbroking commissions and abolish the barriers – which still exist in the US – between banking and stockbroking, liberalise asset allocation rules and open accounting disclosure bringing it more in line with international norms.

In other sectors, the transport ministry is clearing the way for the establishment of the first new internal airline in 45 years, while less onerous rules on the opening of new shops have allowed the creation of a new generation of discount retailers.

Evidence of a re-awakening of Japan's service industries can be seen in a boom in the formation of small companies, in businesses ranging from software sales to management training and home cleaning.

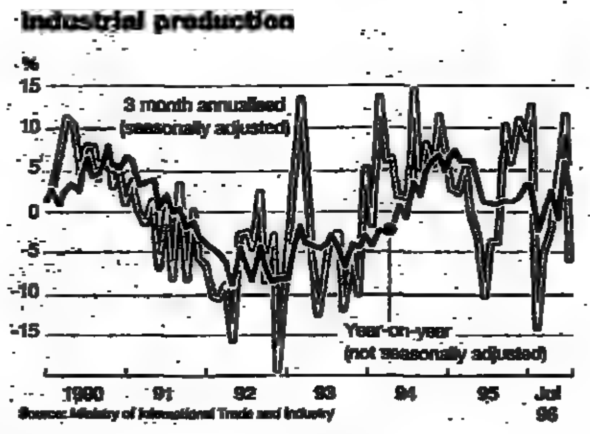
The number of small companies – defined as those with capital of less than Y100m – grew by nearly 19 per cent in the second quarter of this year, the highest growth on record, according to finance ministry data. Another telling sign is that the number of jobs in services exceeded manufacturing for the first time two years ago. The gap has continued to widen: close to 16m Japanese now work in the service sector and just over 14.5m in manufacturing.

As a result, the manufacturing sector has declined in importance, from nearly 40 per cent of gross domestic product 30 years ago to 26 per cent in 1994. It is an enormous change but probably still has far to go, given that Japanese industry still remains more dependent on manufacturing than any other of the world's top five industrialised nations.

In short, the best Japanese manufacturers have used the rigours of recession to boost their competitiveness, mainly by moving offshore, while some – but not yet all – of the weakest have quietly died. Service industries have not yet filled the gap left by the slimming of Japan's overweight manufacturers. Yet the signs are that the industrial economy is well under way into the transition, made by the US and some European economies a decade ago, from manufacturing to services.

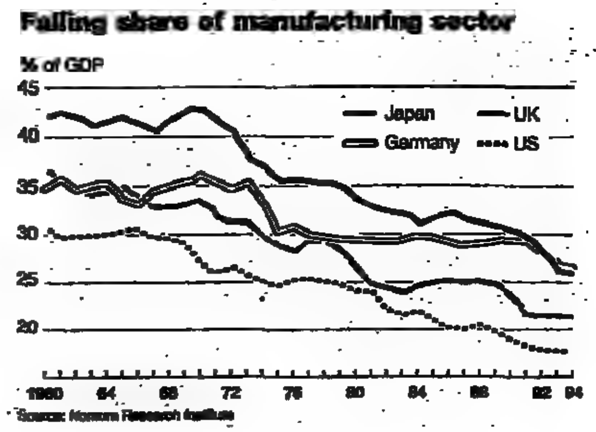
If the service industry could imitate the top manufacturers, by closing the productivity gap with the west and even surpassing it, Japan's industrial revival would over the long term be spectacular.

Industrial production



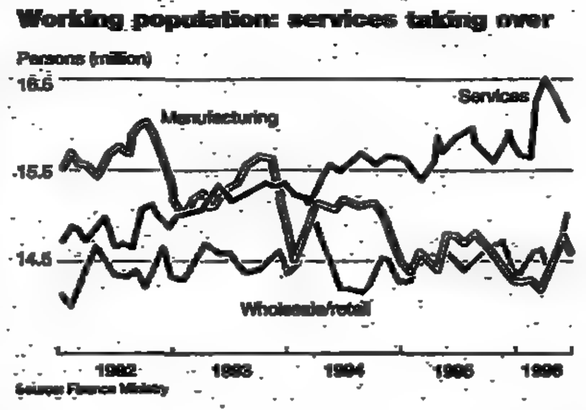
Source: Ministry of International Trade and Industry

Falling share of manufacturing sector



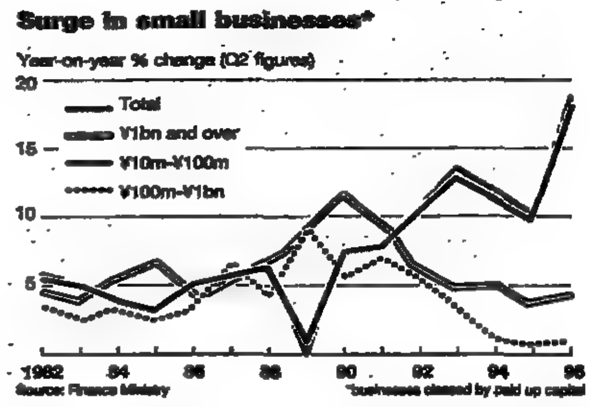
Source: Nomura Research Institute

Working population: services taking over



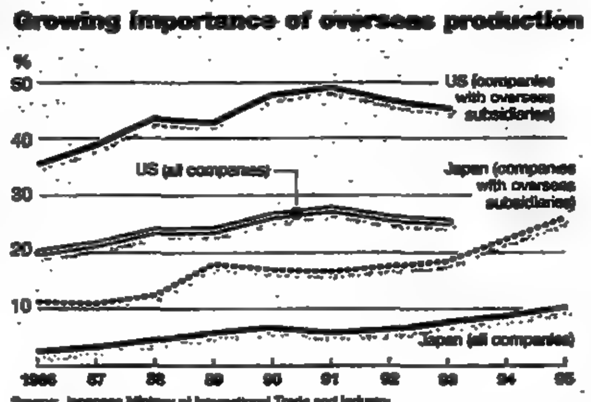
Source: Finance Ministry

Surge in small businesses*



Source: Finance Ministry
*businesses classed by paid up capital

Growing importance of overseas production



Source: Japanese Ministry of International Trade and Industry

■ **Economy:** by William Dawkins

Prescription withdrawn

The challenge is to maintain the recovery once the medicine has run out

Japan's economy is recovering thanks largely to the infusion of two government administered drip feeds: record public works spending and the lowest interest rates in the postwar history of any industrialised nation.

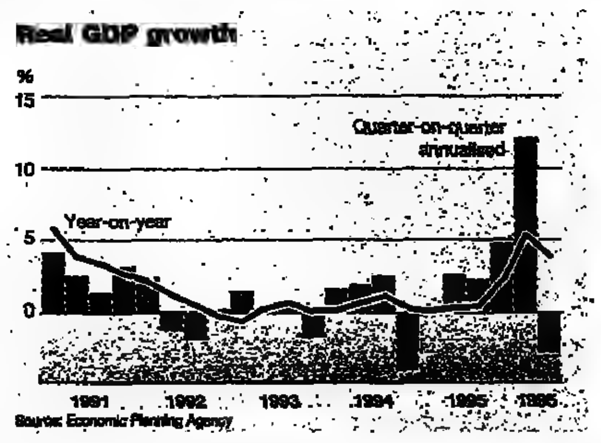
The big question is to what extent the convalescent will continue to come round once the artificial pick-me-ups run out. The answer is that Japan is just about able to stagger out of hospital on its own feet and produce a self sustainable recovery. Stagger is the right word; after perking up by an annualised 12.2 per cent in the first quarter of this year, gross domestic product fell back by 2.9 per cent in the second.

But when measured year on year, the recovery looks smoother. First quarter economic growth increased by 5.5 per cent by comparison with the same period last year, and GDP expanded by 3.4 per cent in the second quarter to June. The Organisation for Economic Co-operation and Development forecasts 2.2 per cent growth in GDP for the full year – up from 0.9 per cent last year – and most Tokyo forecasters think it could be a point or so higher.

Economists in Tokyo agree on one thing: that Japan will not, at least in this generation, return to the heady 6-7 per cent growth rates of 1980s. As an illustration of how far the economy has fallen below its former state of health, the current growth rate is around 6 per cent lower than its long term trend.

The longer term, and more worrying, issue that dogs economic planners and analysts in Tokyo is whether the economy will revive enough for ordinary Japanese to maintain their standard of living into the next century.

In the short term, one of the twin drip feeds – fiscal policy – is already starting to dry up. Spending of the Y14,220bn public works package doled out by the government in September last year has peaked, judging by a sharp drop in government investment in the second quarter of this year. Another public works package, probably about Y5,000bn, of which Y2,000bn would be genuinely new spending, is being sought before the end of the year by the new Liberal Democratic Party government. But thereafter, fiscal policy is set to slip through neutral, thanks to what is expected to be an austere 1997 government budget, into reverse when the increase in sales tax from 3 per cent to 5 per cent – to which the LDP is committed – takes effect from next April.



Source: Economic Planning Agency

The second artificial government boost, a Bank of Japan official discount rate (ODR) of 0.5 per cent, is widely expected to stay in place at least until industrial production shows a strong recovery from the stagnation of the first half of the year.

That is just as well, since an analysis of the latest quarterly GDP data by James Capel Pacific shows that the parts of the economy which did not directly benefit from government stimuli – private demand minus housing – contributed only 0.9 of a percentage point to second quarter growth of 3.4 per cent.

The other key indicators that BOJ officials use to gauge monetary policy are all telling them not to change the ODR, set at this level since September last year. The central bank's quarterly Tankan survey of business confidence, the most authoritative guide to the economic short term, showed in August that the economy might even be slipping back into recession. So it will, on the evidence of past policy, wait for at least two cheerful Tankans – six months – before raising interest rates.


Robots awaiting shipment: industrial production picked up by an unexpected 3.4 per cent in September

Growth in bank loans, another gauge dear to the hearts of BOJ policy planners, has been running at less than 2 per cent for the past three years, partly because demand for bank credit has been genuinely weak, but also because the commercial banks remain cautious about taking on new loans.

They are still working through the Herculean task of writing off the property related bad debts which they and their affiliates accumulated during the asset price bubble. This was emphasised in October by the collapse of Nichiei Finance, a non banking financial institution, with liabilities of Y990bn, Japan's largest post-war bankruptcy. Some Tokyo estate agents report signs of a recovery in property prices, after a decline of between 50 per cent and 80 per cent from the peak, but this has yet to show through in official data.

All this invites the question of where the concrete evidence of a self sustaining Japanese economic recovery is to be found.

Consumer spending, which represents just over 60 per cent of GDP, grew by an average of 3.9 per cent in the first half of the year, suggesting that Japan's cautious shoppers have at last started to open their wallets. Admittedly, consumer spending has since fallen back to around 2 per cent, estimates James Capel, but that is probably temporary, caused by the decline in food sales in response to an epidemic of food poisoning. The real shadow over consumer spending, points out James Capel, is that income growth is still weak – only 2.1 per cent in the first half of the year.

If consumers are showing signs of hesitant recovery, so are companies. Industrial production picked up by a more than expected 3.4 per cent in September, from the same month last year. And Nomura estimates that the top 350 industrial companies will increase their pretax profits by 8.5 per cent this year.

But there is a catch, which vividly illustrates the long term worries. Nomura's forecast of corporate profits performance this year would be a dramatic slowdown from the 21.6 per cent profits growth of last year, a phenomenon which Nomura attributes to the fact that Japanese companies get more reluctant to cut domestic costs when the economy recovers. As many Japanese managers have remarked, it takes a real crisis to justify laying people off in a social system which continues to hold redundancies by large companies as taboo.

That is why Japanese companies are continuing, despite the yen's depreciation, to accelerate investment in new foreign factories, in search of the lower costs which they cannot obtain at home. Those costs are likely to remain high so long as the taboo against redundancies continues and so long as governments take a cautious approach to reducing business regulations. Discouragingly, the new LDP government has placed economic deregulation low on its agenda.

When the economic downturn hit five years ago, Japan's high business costs appeared to matter little, because growth in domestic and export demand allowed companies to increase production. But taken over time, those high business costs and the consequent exodus of manufacturing have ensured that productivity growth – or the rise in GDP per worker – has fallen to dangerously low levels. The burden will increase, with the cost of supporting the fastest ageing demographic profile in the world.

Over the past two decades, annual productivity growth has ebbed from 3 per cent to 0.6 per cent. If it stays at this level, GDP per head will hardly increase over the next three decades, forecasts a recent study by Salomon Brothers Asia.

Once the recovery has gathered pace, the next challenge on the government's agenda will be brutally simple: how to summon the will, so far lacking, to make the structural changes needed to maintain living standards over the long term.

■ **Overseas Investment:** by William Dawkins

Moving abroad

Increased foreign investment has prompted fears for Japan's own industrial base

Matsushita, the world's largest electronics company, last month broke new ground by opening its first research and development centre in China.

Matsushita's move is just one example of how Japanese industrial companies' foreign investment plans have accelerated sharply in the past five years and switched direction towards Asian emerging markets.

They have been pushed by the yen's relative strength, which made large swathes of Japanese based industry briefly uncompetitive, and – what is more significant for the long term – they have been pulled by east Asia's fast economic growth. At the same time, Japanese foreign investments have moved upstream from mere assembly to more sophisticated business functions.

The yen's 40 per cent decline over the past year and half, from a peak of Y79.75 to the dollar in April 1995, to around Y111 now, has caused some Japanese manufacturers, like Toyota, Honda, and Aiwa to fine tune foreign investment plans, by bringing some production back home to make use of newly competitive spare capacity there.

But it has not, on the evidence of Matsushita and others, changed the long term exodus of Japanese manufacturers from Japan's mature and over regulated economy to higher growth and more open markets in neighbouring east Asia.

China, for example, was five years ago little more than a convenient base for Matsushita's low cost assembly of commodity products for re-export to Japan, Europe and the US. It is still used for re-exports. For example, Matsushita's Chinese factories make some kinds of air conditioner and small television tubes that will continue to be exported to Japan whatever the exchange rate because its Japanese plants long stopped making those products, say company officials.

The big change is that now Matsushita's Chinese arm makes high tech VCR components in Shanghai, and sells most of its output to the domestic market and south-east Asian neighbours. It will also be researching voice training technology and multimedia in Beijing, the kind of activity that Matsushita previously reserved for its skilled Japanese workforce. The company now has 18 overseas research laboratories.

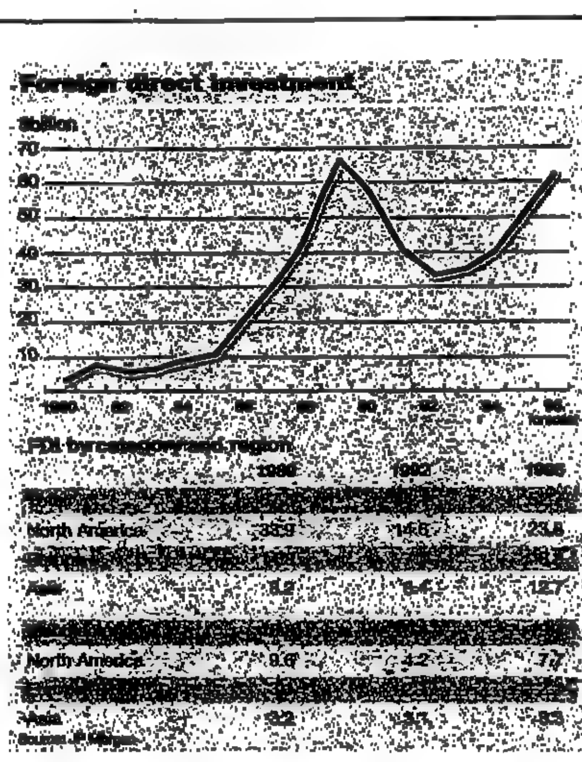
Overall, Matsushita's annual overseas output has more than doubled to $13.8bn from 1991 to the year ending last March, at which level it represents 25 per cent of group production – around the norm for Japanese companies with international operations. The group plans to lift that to 30 per cent by 2000.

Mr Motoi Matsuda, the group's managing director, points out that Matsushita's criteria for choosing foreign investments have not changed. The group has simply adapted to the changing shape of its world markets, he says.

Asia now accounts for 60 per cent of total group output and China another 6 per cent, more than three times the 1991 level. Like many other Japanese exporters, Matsushita has no fixed target for the ideal regional balance, but simply wants to keep production roughly in balance with markets.

"The aim is to produce closest to the markets where we can expect growth in demand. We also look at production efficiency from a world viewpoint . . . That means we look at the quality of labour and components," says Mr Matsuda.

However, the match between foreign sales and production is deliberately kept inexact. Over the next four years, Matsushita expects foreign sales to rise from 45 per cent to 50 per cent of the total – in other words 20 percentage points more than the proportion of foreign production. This reflects the fact that Japan will, for the foreseeable future, remain the prime source of new products, such as digital video disks and digital video movie cameras, the manufacture of which will need to be tested in Japan before being tried overseas, says Mr Matsuda.



Matsushita's experience is typical. This year, Japanese companies are forecast to spend $70bn on direct investment overseas, according to a survey by the Singapore office of JP Morgan, the US bank, double the level in 1992. More than half of that will come from manufacturers – and in that, more than half will go to emerging Asian economies.

JP Morgan attributes some of that increase to the yen's strength until the middle of last year, and the rest to an increase in Japanese companies' cash flow since 1994, giving them scope to splash out on new overseas plant. As Matsushita's Mr Matsuda emphasises, the subsequent weakness of the yen has made little difference to long term investment plans. He speaks for most top executives when he says that the one thing Matsushita finds hard to plan for is currency instability.

Certainly, their foreign investment drive has helped Matsushita and others reduce vulnerability to currency gyrations. Almost 90 per cent of Japanese manufacturers claim to be able to turn a profit at anything from less than Y100 to Y120 to the dollar, up from just over half two years ago, according to a recent survey by the government's Economic Planning Agency. Even more impressive, 23 per cent say they can now break even at less than Y100, once widely considered the line between life and death for Japanese exporters, up from a mere 0.5 per cent who thought they could make money at that level in 1994.

But at the same time, Japanese companies are still less internationally diversified and therefore more prone to the vagaries of the currency markets than are their main competitors.

On average, corporate Japan's overseas output has more than doubled its share of total production to 10 per cent – or 25 per cent for companies with foreign subsidiaries – over the past 10 years, according to the Ministry of International Trade and Industry.

US industry has abandoned its home base in much larger numbers than its Japanese counterpart. According to Miti, just over a quarter of US companies' output is now offshore, rising to nearly 45 per cent for US companies with foreign subsidiaries.

The sharp rise in Japanese foreign investment has prompted dire warnings by Miti that Japan's industrial base risks becoming irreversibly "hollowed out" and uncompetitive. US industry managed the shift without such dire consequences because the thriving service sector filled the gap, providing jobs and economic growth left by departing manufacturers.

The difference is that Japan's service industry remains the economy's weakest spot.

According to McKinsey, the management consultants, Japan's service sector productivity trails western levels by as much as 50 per cent in some sectors. Until the service industry starts to match manufacturers' ability to match and outperform the west, Miti's bureaucrats are right to be concerned by the offshore exodus of Matsushita and others.

■ **Employment agencies:** by Gwen Robinson

Temporary solution

The reduction in traditional jobs for life offers opportunities for agencies

While a growing number of Japanese are being hit by rising unemployment and the steady deterioration of the job-for-life tradition, one sector has benefited enormously: employment agencies.

Japan's unemployment rate stood at 3.4 per cent in October this year, close to the postwar record of 3.5 per cent reached in May and June. But well before that, from around 1993, corporations began cutting back their workforces, sending many people – young and old – to recruitment and part-time job agencies.

This cutback in permanent, or what is known as "lifetime," employment has opened up the field of part-time or temporary employment – a relatively new concept in Japan and different from "temporary employment" in western corporate culture.

"In Japan, 'temporary' employment can mean you're there for the long term, it's a different concept," says Mr Scott Seaman, a spokesman for Pasona, the country's leading temporary staffing agency. When a company recruits a "permanent" employee, it is regarded as a long-term investment which is accompanied by company pensions, low-interest loans, health benefits and even housing assistance.

"Naturally, when profits are shrinking, it becomes more attractive to hire what they call 'temporary' staff, and the cutbacks in permanent employment have certainly provided a lot more space for temporary workers. The biggest resistance, however, comes from permanent employees in companies," says Mr Seaman.

Currently, the categories in which companies are permitted to place temporary workers are restricted to 16, including clerical assistants, sales personnel, and those with special technical skills. The government, however, well aware of the looming demand for part-time or more flexible employment, has said it will soon expand the number of categories.

In the first half of 1996, temporary staff placed by the major employment agencies in Tokyo rose 18 per cent to 327,846 from the same period last year, according to the Temporary Work Service Association. "The importance of these temporary employment services is only bound to increase in the long run," says Mr Tsutomu Sugimoto, director of the association.

Pasona accounts for about 15 per cent of Japan's growing market of temporary staffing agencies. Although the sector is heavily regulated, the total number of private job agencies grew from 3,071 in 1990 to more than 3,300 this year.

While competition has grown, with agencies offering extra deals such as training, the increase in demand has created more than enough business to go around. "Our revenues this year have already grown by 30 to 40 per cent," said Mr Muneaki Ueda, Pasona's executive vice president.

One new growth area is among male middle managers. "There's a large pool of these people, relatively untapped, who've been moved out of their companies but still have skills and networks of contacts, especially in sales, where these sort of networks are so important," said Mr Seaman. At Pasona, the bulk of business is still among the traditional base of female office workers, but as more male, mid-career employees are pushed aside, the placement of older, more senior workers is likely to become a strong focus for employment agencies, he said.

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■ **Automotive:** by Stefan Wagstyl

Driven to co-operation

Cost cutting and improvements in quality are the responses to a tough market

At Aisin Seiki, a motor components maker in Nagoya, engineers are proudly demonstrating the latest move in the relentless pursuit of better quality and lower costs which is the hallmark of the Japanese vehicles industry.

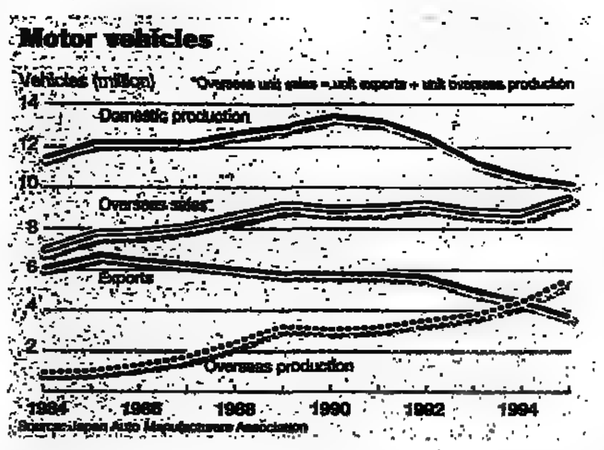
It is a new motor for operating car door locks, which has just 17 parts and costs one third as much to produce as its predecessor which was made of 46 pieces. Mr Hiroshi Ishikawa, production engineering manager at Aisin's Shinkawa plant, says: "Constant improvement is what matters."

The industry has rarely had to pay so much attention to constant improvement as it does today. It has pulled out of the recession of the early 1990s. But the pace of recovery is very modest and unlikely to accelerate in the next few years, at least. The 12 domestic vehicle companies are having to compete harder than ever – and share their market with increasingly successful imports from the US and Europe.

To make matters worse, 1997 promises to be a tricky year, with the government planning to remove a tax discount on cars and to raise the consumption tax rate from 3 per cent to 5 per cent. As Mr Fujio Cho, a managing director at Toyota Motor, the largest maker, says: "Next year will be very difficult."

Prospects for exports are a little better because the recent decline of the yen has given companies room to hold prices, or even to reduce them, especially in the crucial North American market. Also, the yen's move from a high of Y80 against the US dollar to about Y100, gives margins a boost. After falling steadily for many years, the ratio of exports in domestic output has risen slightly recently to around 40 per cent.

However, this may offer only short-term relief because manufacturers remain committed to increasing overseas production. In Europe and North America they are concentrating on deepening their presence by investing in engine and component making. In east Asia, the emphasis is on expanding local assembly, often with parts shipped from Japan – notably in Thailand and China.

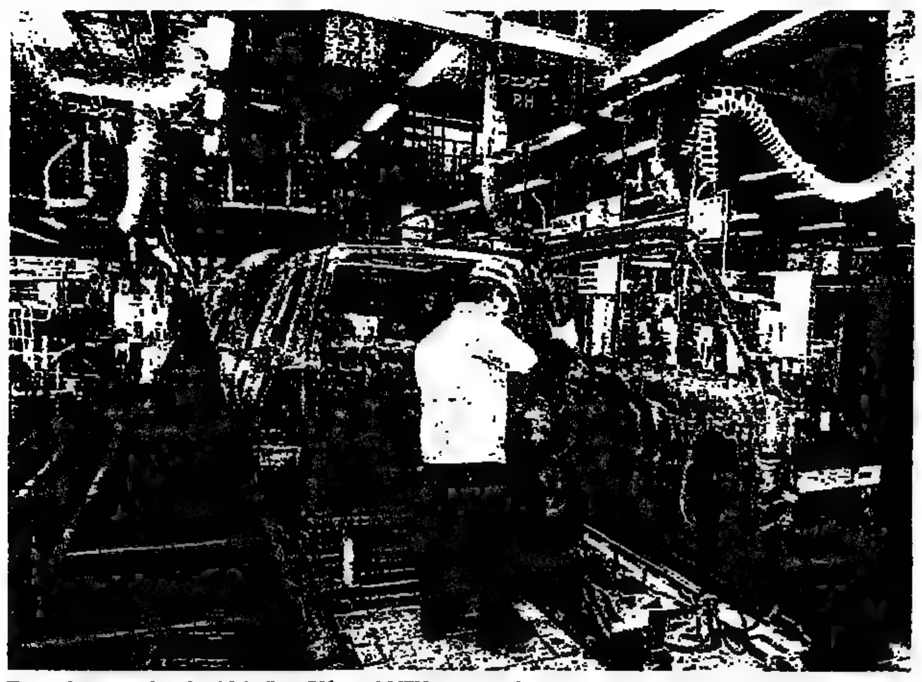


The principal response to these strains has been cost cutting, quality improvements and bigger marketing efforts, including transferring head office staff into sales teams. Companies have cut staff through early retirements, recruitment go-slows, and by moving workers out to subsidiaries. At Nissan Motor, the second largest manufacturer, the domestic payroll has fallen from 53,000 to 43,000 in the last three years. At Toyota, the parent company staff has dropped from above 75,000 to 69,000.

As at Aisin Seiki, redesign has greatly reduced costs of some components. Across whole model ranges, costs have been cut by standardising components and creating common platforms. As a result, says Mr Kenshow Kusumi, a Nissan managing director, the industry can cope with the current exchange rate of Y100-Y110 to the US dollar.

As well as rationalisation, companies have looked to innovation to improve their fortunes. By far the most important is the boom in recreational and multi-purpose vehicles which started in the late 1980s with jeep-type models, notably the Pajero of Mitsubishi Motors. Recently, Honda Motor, the third biggest producer, has stolen a march on rivals with its urban-style models, which have sold well both in Japan and North America.

Honda has secured an unprecedented gain in domestic market share from 5.4 per cent in early 1994 to more than 14 per cent. Toyota has been forced to rush the development of its own multi-purpose vehicles, including the newly-launched Ipsum. The market is likely to be much more crowded next year and Honda may not maintain all its sales gains. But the experience of the last two years has given the company an important commercial boost.



Toyota's recreational vehicle line: RVs and MPVs are crucial to Japanese companies' success

The challenge of developing appealing new models while keeping down costs has increased the gaps between the industry's top and bottom performers. While Toyota's commercial strength has kept it ahead of most rivals, Nissan has suffered serious losses from which it emerged only this year. Honda has seen its profits surge ahead of Nissan's, upsetting the industry's traditional rankings. Mazda, where Ford Motor of the US, has a 33.3 per cent stake, is still in the red on an operating basis, despite the recovery in the market. In the six months to the end of September it made an operating loss of Y12.7bn. Recurring profits of Y2.08bn were boosted by currency movements and securities sales.

Few executives expect these pressures to force companies into consolidation in the immediate future. The Ministry of International Trade and Industry, which suggested mergers as long ago as the early 1970s, has long given up the idea. However, inter-company co-operation is likely to continue. Toyota has strong ties with Daihatsu and Nissan with Fuji Heavy Industries, maker of trucks and of Subaru cars. Such relationships could get closer in the future. So could co-operation between rivals. Nissan earlier this year took the rare step of ordering parts from Aisin Seiki, a company with close links with Toyota. Cheap door locks would not have been the only attraction.

■ **Space:** by Michiyo Nakamoto

Launching a challenge

Research restrictions and the lack of a track record have held back development

Japan's international success in industries ranging from consumer electronics and cars to shipbuilding and robots, has not been matched in aerospace.

In space development, in particular, the US, Europe, Russia and China have forged ahead in staking a place in the growing market for rocket launches and commercial satellites. Japan has been conspicuously absent from the scene.

Nevertheless, Japanese companies have been quietly developing expertise and the promise of huge growth in commercial uses for rockets and satellites is spurring a renewed drive to join the international action.

In the private sector, Rocket System Corporation, which was established as a general contractor for rocket production and provider of launch services for the National Space Development Agency of Japan (NASDA), has been marketing its services globally in the past few years. Meanwhile, Mitsubishi Electric is aiming to become the first Japanese company to manufacture satellites commerically.

The move into the commercial market by these two companies, which have hitherto been limited to supplying NASDA, highlights the mounting confidence of Japanese space companies in rocket and satellite manufacturing and services, and the spreading view that space development is a particularly promising growth business.

Contrary to common perception, Japan's capability in space development is highly regarded throughout the world, notes Mr Hiroshi Imamura, executive vice president of RSC, which was established by a group of more than 70 companies representing a range of specialities in their respective fields. Core shareholders include Mitsubishi Heavy Industries, Nissan and Mitsubishi Electric, while trading companies, insurance companies and banks also have an interest in the company.

Initially, space development by NASDA, on which Japan spends about Y130bn annually, or about one-eighth of what the US spends, relied on bringing in substantial expertise from overseas, but Mr Imamura is confident that Japan is able to stand on its own today.

In contrast to countries such as the US, Russia and China, which have derived much of their expertise through space development work carried out for defence purposes, Japan has been restricted to peaceful uses, such as academic research, Mr Imamura says.

Japan is held in particularly high regard internationally for the reliability of its rocket launching services. All 28 rocket launches have been successful.

Reliability is also a key selling point for Japanese satellite producers, notes Mr Ichiro Taniguchi, a managing director of Mitsubishi Electric and head of the company's electronic products and systems group. Mitsubishi Electric which has provided satellite sub-systems to major satellite makers including Hughes Electronics, Lockheed Martin and Alcatel, is one of just three Japanese companies which are capable of making complete satellites.

Mr Taniguchi believes that in terms of quality and reliability "Japanese companies can make rockets and satellites that are equal to western products".

However, since Japanese manufacturers have much less experience sending their satellites into space, their lack of a track record has made them uncompetitive in the commercial arena, he points out.

Furthermore, since Japanese satellites which have been produced for NASDA, are designed from scratch and take 3 to 4 years to complete, they are not competitive with commercial satellites made by Western companies which can be completed in about 18 months at the shortest, Mr Taniguchi says.

Cost is another area where Japanese rocket and satellite companies have lagged behind their Western competitors.

Mr Imamura at RSC says that the H-II rocket, developed under the leadership of NASDA, was about twice as expensive as other rockets, in part due to Japanese personnel costs, which are among the highest in the world and in part to the fact that the H-II used only Japanese components.

The high cost of the H-II has meant that it has not won a single commercial customer. NASDA is developing a new, more reasonably priced rocket which will incorporate foreign parts in order to reduce costs, Mr Imamura says.

Mitsubishi hopes to tie up with a Western manufacturer in order to build up expertise as well as a track record. Eventually, the company wants to go it alone.

However, it is likely to take considerable time for such partnerships to help Japanese companies bridge the still significant gap with their Western competitors.

After all, Japanese aerospace companies, including Mitsubishi Heavy Industries and Ishikawajima-Harima Heavy Industries, have been working with the world's best aerospace manufacturers for decades with little prospect yet of building their own viable, commercial aerospace business.

Industry executives concede that space development is one area where the West still has a substantial lead over Japan. Mindful of Japanese industry's history of overtaking the West in many fields, it is highly likely that Western companies will try their best to ensure that that gap stays wide, for as long as possible.

■ **Consumer electronics:** by Michiyo Nakamoto

Back in the living room

The shift to digital technology is giving a much needed boost to manufacturers

Semiconductor manufacturing: the greater use of PCs has prepared consumers for digital technology in the home

Just a few years ago, Japan's consumer electronics companies appeared to be heading towards a slow but inevitable decline.

Sales had plunged and profits had evaporated amid the sharp appreciation of the yen, recession at home, falling consumer electronics prices in major markets throughout the world, and a conspicuous lack of exciting new products.

The prospects for the industry looked gloomy in contrast to the US-dominated computer industry, which seemed to be going from strength to strength. Even executives in the consumer electronics industry spoke openly about the need to maintain their position in the living room.

Today, that gloom has largely lifted; there are signs that new technologies are encouraging strong demand for innovative electronic gizmos.

While prices of mainstream consumer products, such as TVs and VCRs, have remained under pressure, Japanese consumer electronics manufacturers are making a steady recovery with products that bring the benefits of advanced technology to consumers.

The line up of new products is at its best for five years, comments Mr Joseph Osha, industry analyst at Merrill Lynch in Tokyo. For example, the MiniDisc is succeeding by providing features previously unavailable on similar recording tools. Consumers like the MD's ability to record high quality music and simple data and sales of MD players are expected to be between 2.5m and 3m this year, according to Mr Osha.

Digital cameras and digital video cameras, which consumer electronics makers have launched, have also been successful. The ability to input photos directly into a PC or to send photos down the phone line have spurred demand for digital cameras. Sales are expected to reach 1m units this year, or six times that of last year, according to forecasts.

Sales of digital camcorders have also outpaced production, and companies such as JVC, which recently launched a new product with an LCD monitor, have not been able to meet demand. Of 1.4m camcorders expected to be sold this year, 600,000 are forecast to be digital.

Looking further ahead, digital video discs, which are like CDs but have substantially more recording capacity and can contain a full-length film on one disc, are expected to come into wide demand, particularly when recordable DVDs become available. Manufacturers have launched DVD players this autumn but sales are not expected to take off for some time due to the limited amount of software available.

Toshiba, a leading developer and advocate of DVD, expects DVD players, which have the advantage of being backwards compatible with CDs, to grow into a global market of 2m units in its first year and 20m units in the year 2000.

Large, flat screen TVs using plasma display screens to provide a cinema-like experience in the home, are also expected to become a big hit as prices come down over the next few years.

The new products that are driving growth in the consumer electronics industry stem from advances in technology.

The greater use of PCs and networks, such as the Internet, has prepared consumers for the spread of digital technology into the home. At the same time, the introduction of digital satellite broadcasting and digital communications lines has provided the infrastructure necessary for the shift in the consumer market to digital technology.

For example, a surge in the use of online services has spurred demand for personal organisers that can tap into networks and has encouraged consumer electronics makers, such as Sharp and Sanyo, to introduce TVs which can access the internet. Sharp is aiming to sell 3,000 units of its Internet TV a month.

Ms Masami Fujino, industry analyst at Jardine Fleming in Tokyo, estimates that new products such as digital phones and digital video cameras, will provide Y430bn in sales in the current fiscal year, rising to Y900bn next year.

Many Japanese consumer electronics makers are well placed to take advantage of the digital environment. Not only do they have the high level of expertise in semiconductors, digital compression and optical technology needed to develop new, advanced products, they also have the ability to gather market information on what consumers want, and so to develop products rapidly, points out Mr Osha at Merrill Lynch.

It is no coincidence that Matsushita, Sony, Sharp and Sanyo, which are among the largest consumer electronics makers, are also in the top ten semiconductor manufacturers in Japan, he notes.

The big, established consumer electronics makers are also major manufacturers of key components that support many of the new products. For example, Sony and Sanyo are leading makers of rechargeable batteries, which are crucial for portable products ranging from digital personal organisers to portable audio equipment. Sharp's expertise in liquid crystal display panels has given its consumer business a tremendous boost over the years by adding value in the form of a thin LCD screen to conventional consumer products such as camcorders.

This high level of technological expertise suggests that Japanese companies are likely to dominate the market for DVD. The world standard for DVD has been agreed by a consortium of hardware manufacturers led by Toshiba and comprising mostly Japanese consumer electronics companies.

Just as importantly, Japanese consumer electronics makers have the brand names necessary to attract consumer demand, Mr Osha says.

Yet, while new products are expected to spur industry growth, the increasing sophistication of the technologies involved is widening the gap between those companies that are able to take advantage of technological developments and those that cannot.

The consumer electronics industry still has too many players and "is in a long-term rationalisation mode" Mr Osha says. In order to survive, companies either have to be big and have the necessary advanced technological expertise, or be narrowly focused on an area of competence, he points out.

■ **Trade:** by Michiyo Nakamoto

Worldwide solutions

Japan is taking an increasingly global approach to resolving trade disputes

For the past year or so, Japan and the US, its biggest trading partner, have been happy to put off confrontation over several troublesome trade issues.

After coming back from the brink of a trade war over cars and car parts in the summer of 1995, the two countries have toned down the rhetoric; and the world's most important trade relationship, as leaders on both sides of the Pacific like to call it, has enjoyed a period of relative calm.

Japan's shrinking trade surplus and the US presidential election last month have no doubt played a significant part in the relative absence of trade friction.

But there are also signs that the change in atmosphere reflects a recognition that a bilateral approach is increasingly inadequate to solve trade problems which have become much more global in nature.

Japan has expressed a strong preference for resolving disputes through the World Trade Organisation rather than the traditional practice of working out solutions to specific trade complaints through bilateral negotiations.

In talks with the US over the past few years, Japanese officials have steadfastly preached the virtues of a multilateral approach to trade problems and the evils of unilateral action, such as the economic sanctions that have been employed from time to time by the US against what it considers unfair trade practices.

In the dispute over cars and car parts, the Japanese government successfully turned to the international community to condemn the US's insistence that numerical targets should be used to measure the degree of progress in opening Japan's markets to vehicle imports. Academics in the US as well as European business leaders supported the Japanese position, giving Japan the moral high ground in negotiations.

Likewise in the more recent spat over whether or not to renew the US-Japan semiconductor accord, the objection of the European Union to the bilateral arrangement, on the grounds that it was discriminatory, helped put the US bid for renewal in a negative light.

The result was to strengthen Japan's resolve not to give in to US demands. Both disputes were settled without offering the US much more than promises of continuing efforts to improve market access.

These two bilateral issues underscored the growing impact that international, rather than merely domestic, public opinion can have on the outcome of a bilateral dispute. The EU's growing determination to have a say in discussions between the US and Japan has also made it difficult to keep trade a bilateral issue.

Against this background, it is not surpising that the World Trade Organisation has started to play a significant role in resolving trade issues between Japan and its major partners.

A potentially stormy row with the US over unfair practices in Japan's market for photographic film and paper, for example, has been referred to the WTO, while Japan agreed last month to amend legislation after the EU, the US and Canada won a WTO ruling that the Japanese liquor tax system discriminates against certain spirits, such as whisky.

Further deregulation of Japan's telecoms market is likely to hinge more on the outcome of international talks on liberalisation that are scheduled to be concluded early next year, than on US demands in bilateral negotiations.

However no matter how effective the WTO, the two countries will continue to have regular and direct bilateral exchanges over issues that affect their economic activities.

There are several contentious matters, such as the opening up Japan's insurance market and the US-Japan civil aviation accord, that are still on the bilateral agenda.

But just as the growing global nature of trade has enhanced the role of multilateral trade bodies in settling disputes, it has also turned attention away from the US-Japan relationship to other trouble spots.

The increasingly important role of Asia in world trade has made the region a more frequent source of tension. The US has had several clashes with China over intellectual property rights, while Japan has narrowly averted curbing Chinese exports of textiles to Japan which have been flooding the domestic market.

In an unusual move, Japan has also taken Indonesia to the WTO over its national car policy which discriminates against foreign importers by giving privileges to one domestic company with strong connections to the Indonesian president.

"The rise of Asia has increased friction in international trade and finance," notes a recent report of the Japan Forum on International Relations, a private research institution comprising businessmen, academics and politicians. The Forum, which makes policy recommendations to the prime minister suggests that Japan should play an active role "in the construction of a WTO framework that presumes greater prominence for Asia".

Japanese trade policy is also increasingly influenced by the rapid globalisation of industries.

In telecommunications, for example, the Japanese authorities have become significantly more open to deregulation of the domestic industry because it is recognised that keeping in line with global developments is crucial to remain competitive in a borderless market.

Thus recent deregulation in the cellular phone market has spurred strong growth in Japan, which had lagged behind many other industrialised countries in mobile communications.

Meanwhile, the news that BT, the UK carrier, and MCI, the US telecoms group, plan to merge their businesses and create a formidable international operation, has lent weight to recommendations that NTT, Japan's dominant telecoms company which has long been restricted to domestic operations, be allowed to conduct international telecoms business.

In industries that will provide the engines of future economic growth, such as telecommunications, Japan may be expected to show a hesitant but unmistakable shift from a trade policy aimed at protecting domestic industries to one aimed at raising their international competitiveness.

A brake on business: cars and car parts nearly drove Japan and the US to a trade war in 1995

■ **General traders:** by Daniel Bögler

Survival strategy

The trading giants are having to reinvent themselves once again

Japan's general trading companies like to think of themselves as latter-day samurai, the country's shock troops on the international commercial battlefield. On the face of it they look more like corporate dinosaurs.

They are huge. The top five "sogo shosha" or general traders – Mitsubishi, Mitsui, Sumitomo, Itochu and Marubeni - had combined turnover of more than Y80,000bn ($720bn) last year. But they are sluggish. Sales are set to fall for the sixth year in a row in 1996/97 and profitability remains poor with operating profit margins at a tiny one half of one per cent.

On top of that, the copper trading scandal which cost Sumitomo $2.6bn and tainted its reputation, has raised fresh questions about the trading companies' ability to manage risk and the increasing obsolescence of their middle man function.

But like most of Japanese industry, the shosha think in decades rather than years. They started as simple import-export businesses in the 17th century, grew into international traders in the 19th and brokered the nation's recovery from the second world war. According to Mr Kota Nakako, analyst at SBC Warburg in Tokyo: "Their strength has been their phenomenal ability to reinvent themselves down the years."

Despite their current difficulties, the shosha are in the middle of another such rejuvenation. There are three main elements to this process: first, a transformation from commission-based trading to income from equity stakes and manufacturing joint ventures; second, a broad drive into Asia; and third, focused investment in new industries, such as multimedia and information technology.

Over the past decade, the traders have poured money into a vast array of new ventures, from handbag design and aircraft manufacture to power generation and car rental, in a drive to reduce reliance on the razor-thin margins of their traditional commission business. Mr Hiroshi Matsushima, general manager of planning for Sumitomo, says: "We have learned that it is no longer enough to be mere intermediaries. We must also be manufacturers, investors and developers of natural resources."

Each of the big five now has 600-odd affiliates and joint ventures, while income from investments, equity stakes and related fees makes up nearly 60 per cent of profits, compared with less than 30 per cent 10 years ago.

Mitsubishi set up a merchant banking unit in April 1995, following a Y18bn capital gain from the partial flotation of Net-One, an electrical wholesaler. Most of its rivals have followed suit by setting up Asian venture capital funds, where they invest alongside their traditional manufacturing clients.

Much of that investment takes place in Asia, where the trading companies have had extensive links for years. During the Gulf War, the Japanese Foreign Ministry relied on shosha contacts in the Middle East rather than its own diplomatic sources to find out what was going on.

Itochu has been in China, where it has more than 20 offices, for 30 years. Last December it helped to arrange a takeover making Japan's Asahi the biggest brewer in China after Itochu executives overheard at a wedding reception of an Indonesian industrial magnate that he wanted to sell his stake in a Chinese brewery.

"Formerly our business was to export and import from the Japanese market. But now that Japan is growing more slowly, we are looking to supply emerging markets in Asia. We have to diversify, otherwise we cannot survive," says Mr Akinori Seki, strategic manager for Marubeni. The group, which started as a textiles trader, has expanded into Chinese oil exploration and Burmese steelmaking. Less than a tenth of current sales come from its original business.

Back in Japan, the trading companies have been among the country's most enthusiastic investors in new industries.

Partly this has been a conscious decision to diversify away from trading activities in mature sectors like food, metal and textiles. But it is also because most of the shosha are part of bigger keiretsu, Japan's corporate families, who had other group companies covering traditional manufacturing like cars and electronics.

Investment in new technologies is set to rise from 5-10 per cent to 20 per cent of total shosha investment in the next five years according to Salomon Brothers analyst Mr Kenichiro Yoshida, and will be the most important factor in boosting future earnings.

Having helped to finance the start-up of DDI and Japan Telecom, two long-distance telephone operators, the trading companies are now extending their reach to embrace cable television, satellite broadcasting, mobile communications and the Internet.

Mitsui is already making profits in computer software, while Itochu has injected Y50bn into Time Warner and teamed up with the US media giant to build a Y50bn cable network to cover 2m households by 2000.

While their sheer size gives the trading companies a high tolerance for risk, there is no denying that investment on such a broad front produces its share of flops. Like many other Japanese companies, the collapse of the bubble economy has left the shosha with unprofitable businesses and unsaleable properties. Marubeni alone has spent Y180bn in the past three years in write-offs and closures. And while they have been quicker to dispose of failed investments than the banks, both Itochu and Marubeni remain exposed to large bad loan portfolios through associated leasing companies.

New investments, however promising, also take time to come right. Mr Nakako estimates that 30 per cent of a company's subsidiaries and ventures are loss-making at any one time.

That helps to explain the shosha's low profitability and highly geared balance sheets. Debt to equity ratios range from 260 per cent at Sumitomo to 600 per cent at Itochu, though servicing these borrowings is no problem while interest rates stay this low. As for profitability, Mitsui, regarded as the best-managed and most profitable, should manage a consolidated return on equity of 6.5 per cent this year, with most of the competition at 4 per cent or less. But at least the shosha are starting to think along the right lines - Mitsubishi has set a target return on equity of 8 per cent for next fiscal year, while Marubeni is aiming for 6 per cent.

From an investor's point of view, there is no doubt that the general trading companies could do much more to boost profits and shareholder value. But they are proving remarkably adaptable. They are weaving themselves into the fabric of Asia and of sunrise industries as effectively as they have integrated themselves into the heart of corporate Japan. Measured by their own, very Japanese standard – survival – they are an undoubted success.

THAILAND

Painful end to era of easy money

Thailand needs a new formula for economic success. It is time for the new coalition government of Gen Chavalit Yongchaiyudh to deliver on its promises, says Ted Bardacke

The era of easy money is over in Thailand. A lot of money will still be made in the country – consumption-eager Thais will certainly see to that – but it is going to be a lot harder to make it than during the past decade, when Thailand was the world's fastest growing economy.

Over the past year, it has become painfully obvious that Thailand can no longer produce the growth rates to which it has become accustomed; an average of 8 per cent a year for 10 straight years, on the back of government monopolies, asset inflation, cheap labour, tariff protection and illegal activities.

All these things are, to a greater or lesser degree, in decline – and the economy is feeling it, registering its lowest growth rate since a shock devaluation in 1984.

In short, the country needs to build a new formula for economic success, one based on productivity in the manufacturing sector, innovation in the services sector and a renewed commitment to the country's first economic strength: *agriculture*. And unlike the formula for Thailand's most recent period of rapid growth, it will be difficult for this new formula to emerge by chance; it has to be engineered.

The thought that the government *might start to do* something other than manage day-to-day macroeconomic stability is uncomfortable for many Thais.

"We're not very good at strong government," says Mr Chalongphob Sussangkarn, *president of the Thailand* Development Research Institute. "Once we realise we have a problem we are able to adjust quite quickly. But telling people how to do things doesn't usually work here."

Yet for the private sector the problem is beyond mere tinkering or adjustment. Government concessions which gave private companies licences to print money in areas such as telecommunications are being dismantled. *The decline in the stock* market and shake-out in the property sector is exposing speculators to a downturn for the first time in recent memory.

Meanwhile, wages are rising much faster than productivity and traditional industries such as textiles and footwear are abandoning the country.

Tariffs are coming down in a haphazard manner, with raw material imports still taxed heavily while finished goods enter at relatively low rates. Illegal pilfering of the country's natural resources still continues, but with fewer forests remaining it has become harder to earn money this way.

"We've been living from one Christmas to the next. *This year, the orders didn't* come in," says Mr Banthoon Lamsam, president of Thai Farmers Bank. "Implementing the structural measures necessary [to change this] will be painful in the short run."

The most important structural issue that has to be dealt with is the propensity of Thai businesses to over-invest. In fact, much of Thailand's recent economic growth – along with the country's chronic current account deficit, *which shows* little sign of being reduced – has been derived from investment growth, not productivity gains. In some areas such as residential property development, nearly 12 years of inventory sits empty.

The Thai private sector, used to growing simply by investing, is still uncertain what to do. A recent survey of Thai corporate financial officers by Goldman Sachs and Phatra Thanakit, a leading Thai finance and securities company, showed that while capacity utilisation hovers around 70 per cent, more than three-quarters of those surveyed expected to increase capital spending next year.

Phatra Thanakit believes that an 85 per cent capacity utilisation rate is the level at which capacity additions are warranted. Mr Banthoon of Thai Farmers Bank says that a common denominator of his bank's top 10 problem loans is that they are basically well-managed businesses that have over-invested because of overly optimistic growth assumptions.

For once, the politicians seem to be out in front on the issue. Gen Chavalit Yongchaiyudh, the new prime minister, says: "We've spent a lot of money – much more than we should – always thinking we're going to be the next economic tiger. We're still a long way from that. We've got to stop putting up projects that have very low or no economic return." Whether Gen Chavalit can enforce this view on his fractious six-party coalition and a business sector that voted against him, remains to be seen.

Gen Chavalit does have one important ally: direct foreign investors who, undeterred by politics, are turning Thailand into a manufacturing *base* for vehicles, computer parts, plastics and petrochemicals. These investors bring along with them the latest in manufacturing techniques, benchmarking their performance against world leaders, not just Thai *companies*.

But for this investment to continue, two short-term items must be dealt with in order to reduce Thailand's risk profile. First, the country's macroeconomic managers must land the economy *safely* into a stable growth rate of between 5 and 7 per cent.

Much discussion has been devoted to whether Thailand's landing is going to be hard or soft. Actually, the point is moot; it has been *more than 10 years since* Thailand had a landing and the current managers have never piloted one before, especially in an environment of a high current account deficit leveraged with a great deal of short-term capital. Even a soft landing, especially with so much excess capacity, is going to be difficult.

The second short-term issue is the exchange rate regime, which pegs the baht to a basket of foreign currencies *dominated by the US* dollar.

This limits the central bank from having much flexibility over domestic interest rates, which now stand above 13 per cent. Because of the dollar's heavy weighting, it also exposes exporters to fluctuation of the dollar *against the* yen, *even though* Japan is by far Thailand's largest trading partner.

In addition, the wide differential between dollar and baht interest rates attracts inflation-causing short-term foreign capital inflows and prompts the Thai private sector to borrow overseas, *thus raising* the country's foreign debt exposure.

Most analysts expect a change in the regime within the next 12 to 18 months.

Widening the band in which the baht is allowed to trade, changing the composition of the currency basket, and a crawling peg leading to a gradual devaluation are the main options being discussed.

However, with the current account so large, if the change is mismanaged it could upset portfolio investors and lead to disaster.

Nevertheless, if these two things are dealt with satisfactorily, Thailand will have a firm base from which to construct its next growth formula.

But it still will not be out of the woods. Self-interested politicians could still cause big problems.

Two recent examples illustrate the point. Over the past month, Thailand has secured nearly $6bn in commitments by private investors in the electricity sector. This was done with relative ease because the process was structured well, with a neutral regulator, competitive and transparent bidding and flexibility on the part of the government.

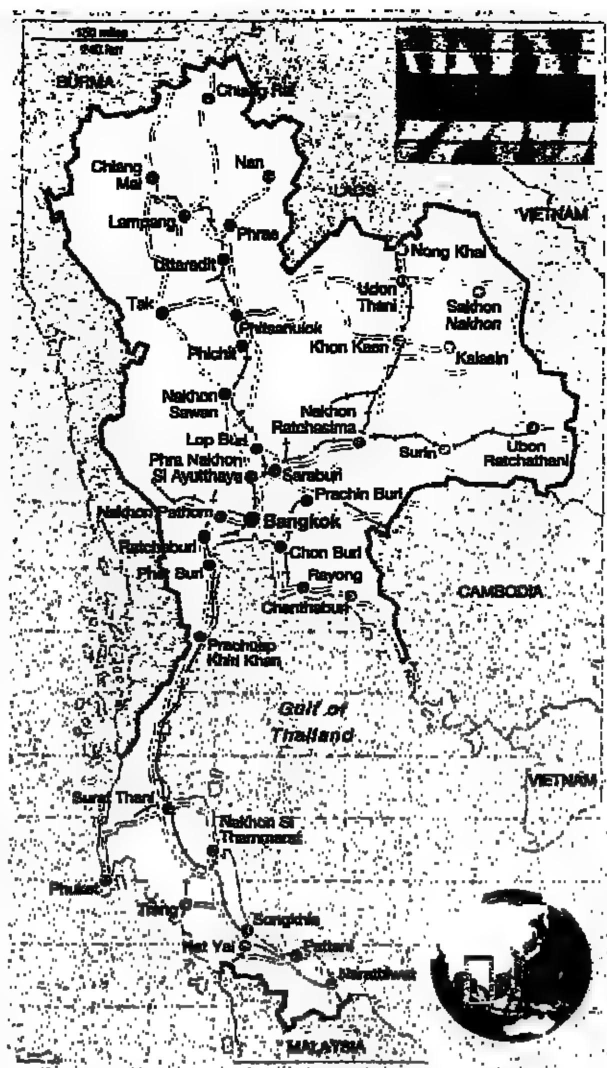
As a result, Thailand will have ample power for the next decade at some of the lowest tariff rates in Asia.

At the same time, the cabinet stripped state-owned Thai Airways of its cargo service and awarded the contract to a private company. The idea was applauded by exporters, who complain that Thai Airway's inefficiency is a big impediment to Thailand's export competitiveness.

But the contract was awarded behind closed doors to a politically well-connected company run by a man close to the military who is also the director-general of a state-owned shipping company. Thai Airways workers went on strike, crippling the movement of Thailand's air cargo for two days until the cabinet reversed itself. Air cargo is still inefficient.

Since being elected, Gen Chavalit has been saying all the right things, pledging to place the interests of the country ahead of the interests of the politicians who support him, despite the fact that they just spent nearly $1bn getting elected and are looking forward to recouping their investment.

Now it is up to Gen Chavalit to see if he can deliver on these promises.



- Area: 514,000 sq km
- Population: 60m (1996 est)
- Language: Thai
- Currency: Baht (Bt) = 100 satang; Exchange rate: Nov 28 1996 $1=Bt25.535

Main towns and population (1995)

Bangkok (capital)	6,509,000
Nakhon Ratchasima	205,000
Chiang Mai	164,000
Hat Yai	138,000
Khon Kaen	131,000
Ubon Ratchathani	130,000

Government and constitution

Head of state: King Bhumibol Adulyadej

Head of government: Prime minister General Chavalit Yongchaiyudh (NAP)

National legislature: The legislature consists of a 393-member elected House of Representatives and a 270-member Senate nominated by the prime minister and appointed by the king.

Main political parties: New Aspiration Party (NAP), Democrat Party, Chart Pattana Party (CPP), Chart Thai (CT), Social Action Party (SAP), Prachakorn Party (PTP), Solidarity Party, Seritham

Sources: Datastream; EIU; Barings

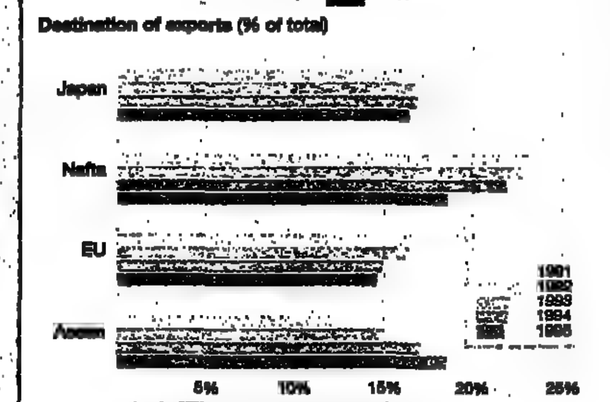
Economic summary

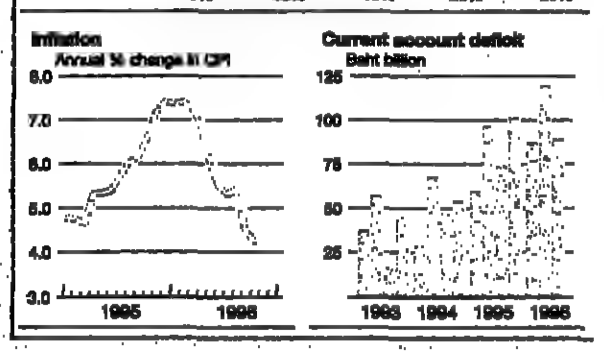
	1996(f)	1997(f)
Real GDP growth (annual % change)	7.2	7.1
GDP per head ($)	3,006	3,268
Inflation (annual average % change in CPI)	5.8	4.9
Manufacturing output (annual % change)	11.0	10.0
Services output (annual % change)	5.5	5.8
Money supply, M2 (annual % change)	15.3	16.0
Credit growth in banking sector (%)	16.0	15.0
Foreign exchange reserves ($bn)	39.26	42.81
Tourism & other foreign exchange receipts ($bn)	8.5	9.2
Government expenditure (% of GDP)	15.9	16.4
Total foreign debt (% of GDP)	44.8	44.5
Debt service (% of exports)	21.1	22.4
Current account balance ($bn)	-14.8	-14.3
Merchandise exports ($bn)	59.0	65.36
Merchandise imports ($bn)	-71.2	-79.0
Trade balance ($bn)	-12.2	-13.64

(f) forecast

Main trading partners (1995 estimate)

Destination of exports (% of total)





The economy: by William Barnes

Long-term problems

A sharp drop in export growth has shaken many people out of complacency

Mr Richard Han, the president of Hana Microelectronics, the Thai integrated circuit (IC) maker, became so frustrated trying to find skilled workers in Thailand that he bought a factory in Hong Kong.

"Basically, we've given up doing it [training] here, or expecting the government to do anything about it, Mr Han said.

Hana will send its Thai employees to train on the job in the more sophisticated Hong Kong venture.

The company expects about $200m in sales this year. It has two IC factories in Thailand and a third under construction. It also has a plant in Shanghai where labour costs are one-third those of Thailand.

Over time Mr Han plans to transfer the more sophisticated technology from Hong Kong to his Thai factories – and ship most of the low-end work to Shanghai. "It is the only way we will survive," he added. "If we just sit here and complain, then we are dead."

The fact that a company such as Hana is forced to jump through these hoops in order to retain a competitive edge indicates why many people have become worried about the Thai economy this year.

For years there have been warnings that it is wrong to assume that the vigorous Sino-Thai business community will drive the economy forward forever as long as it is left relatively unfettered by government.

But with the economy expanding at an average rate of 9.4 per cent of gross domestic product in the 10 years to 1995, there has been no pressing incentive for decision-makers to address the long-term structural problems such as a desperately inadequate infrastructure.

Did not The Economist predict a year ago that, from World Bank figures, Thailand would be one of the world's eight biggest economies by the year 2020... Bigger than the UK, Russia or Brazil?

In 1993, Mr Rob Collins, head of research at Asia Equity, a Bangkok broking house, made what seemed to be a controversial comment: "It is quite possible to argue that Thailand *will be the* NIC (newly industrialised country) that failed."

Mr Collins now admits: "That might sound a little strong, but if I defined failure as performance falling well short of potential, then I think a lot of people might agree with me."

But the shock of possibly zero growth in exports this year - compared to the double digit increases that have been the norm in recent years – has shaken many people out of their complacency.

The central bank now admits that economic growth could dip below seven per cent for the first time in this decade.

The immediate cause is primarily cyclical weaknesses in global demand that have sent ripples of worry across the whole region. But, perhaps more than for any other Asian economy, the slowdown has exposed deficiencies in the Thai economy that were previously overshadowed by rapid growth, or simply ignored.

When export growth started to collapse, economists and investors – mindful of Mexico's near-meltdown two years earlier – ran around the statistics looking for cracks in the economy.

However, Thailand's eye-catchingly large current account deficit – 8.1 per cent last year – has, unlike Mexico's in 1994, been built by imports of capital goods rather than a sea of consumer items. And high capital imports are traditionally regarded as forgivable because they imply that the country will go on to use the capital to produce exports.

It is generally recognised, however, that Thailand has become a *capital junky*, dependent on injections of capital to keep its economy frisky but without properly laying a foundation worthy of a newly-industrialised economy.

Indeed, the impression given by central bank officials is that they are quietly satisfied with the slowdown which they see as the only way to wean the economy off its dependence on high capital *imports and so bring the* current account deficit down.

This suggests that although there have been indications that the current account deficit has stabilised – it dipped below Bt30bn in August for the first time in six months – the climb back could be long and slow and will not reach the very high growth rates seen in recent years.

The economy's real problem may not be that it is about to spring a disastrous leak but that there are flaws in its design.

Then there is a need for a much more concerted attempt to finesse the transition to even a medium-tech – not a high-tech – economy than has been undertaken previously.

"We have been importing all this technology. Now we are faced with the tricky part – making it work," Mr Chatumonkol Sonakul, the finance ministry's permanent secretary, told a *meeting of Thai* businessmen a few days ago.

Yet, no-one is suggesting that the Thai government should engage in Korean-style economic management – it is one of Thailand's strengths that it *has eschewed such* interference.

Indeed, it is not mere luck that Thailand has become the preferred destination for the diaspora of Japanese factories seeking a refuge from a strong yen.

Earlier this year General Motors gave Thailand a vote of confidence when it announced that it would build its first $750m vehicle plant in Asia in the country.

Thailand has been unlucky that the global *downturn has coincided* with important investments in steel mills and petrochemical plants. But the strong growth in exports of computers and parts in the first half of the year shows it is also developing a medium-tech computer parts industry.

Many pundits have already written off large parts of the Thai textiles and footwear industries as *naturally deserving to shift* to cheaper labour economies. Yet the nagging suspicion remains that if Thailand is to find its niche it should really try to salvage a future out of some of its struggling industries: perhaps moving into fashion footwear, for example.

But this requires a flair and creativity that Thais have too often neglected in favour of merely copying successful rivals, or making up orders on demand.

There is a dearth of Thai brand names in any industry, and few attempts have been made to make a virtue out of necessity by, for example, promoting branded agricultural produce.

Rather than address big *economic issues*, the previous government of Mr Banharn Silpa-archa, prime minister, preferred to concentrate on the tricky task of merely staying in power.

As the economic numbers *crumbled, it even appeared* to go backwards by losing – amidst allegations of either corruption or political meddling in independent regulators – two finance ministers, a central bank governor, a respected head *of the Securities* and Exchange Commission and a deputy finance minister.

The election campaign promise of Gen Chavalit Yongchaiyudh, the new prime minister, to create a dream team of technocrats *to set the economy to rights* has predictably collapsed in the face of demands by many politicians for cabinet seats.

Ominously, the make-up of the new coalition bears a remarkable similarity to the previous one.

Property: by William Barnes

Turbulence looming

Most believe the sector has been concealing damage in the balance sheets

The president of the Somprasong property group appears to be a worried man: he juggles his cell-phone from hand to hand, bounces in his seat and is alternately sorrowful and angry.

This should perhaps be no surprise because a few days before he spoke to the Financial Times, Mr Prasong Panichpakdee had been arrested and charged with falsifying financial reports.

He was disarmingly frank about why the Somprasong group, and several other property companies, are having problems: "We Thais have a weakness – we can not resist trying to copy someone else's success," he complained. "If someone opens a shoe shop that gets good business, then in a few months you can get lots of shoe shops opening up in the same street. The same thing happened in real estate."

Although prices in the residential sector, where listed companies have concentrated their attention, stalled about five years ago, most developers saw little reason to stop building.

"There was a big element of competition – the 'If I don't then he will' attitude. There was also a feeling that prices were still very reasonable compared to Hong Kong or Singapore; four or five times cheaper," Mr Prasong said.

He also admitted that in his case a successful Bt2bn Euro-bond issue issue encouraged the urge to keep driving development projects into the capital's residential market. Debts may total Bt6bn.

Mr Prasong claimed that shareholders and disgruntled employees were telling lies when they said the company was doctoring its accounts, perhaps from the time it was floated in 1991.

In the listing year, profits jumped to Bt174m from Bt78m a year earlier. The company made a loss in the first half of this year of Bt94m, compared to a Bt185m profit over the same period last year.

Most observers expect the problems of other high-flying property companies to surface in the future.

One Bangkok-based property analyst said: "Cash flow management is generally horrific. They (the listed property companies) scrambled to get assets onto their books in the blind assumption that asset values would continue go up."

Stockbrokers Asia Equity recently worked out that if the published accounts of Thailand's 20 listed property companies were recalculated by making only cash payments count as revenues, and by deducting all interest payments from profits, then the sector's cumulative profit of Bt42.1bn from 1991 to 1995 would be transformed into a Bt18.3bn loss.

The listed companies currently avoid revealing how damaging a 324 per cent increase in total debts in the five years to the end of 1995 has been by capitalising three-quarters of their interest payments as assets.

Some property developers have complained that Asia Equity's calculations are unrealistically extreme.

Yet few people dispute that as cash has streamed out of property projects the sector has been able to continue reporting robust profits by borrowing money and tucking the damage away in the balance sheet.

Property companies must nowadays obtain at least 20 per cent of the purchase price before they can report a sale, but there is a strong suspicion that many companies have sold to speculators (Thais love to invest in bricks and mortar) who will never complete the payments.

There could be a total of 250,000 houses and flats lying empty in Bangkok, either unsold or in the hands of speculators.

One veteran property analyst said that in the circumstances the (financial) figures from the property sector were inherently untrustworthy.

Stockbrokers HG Asia, in a recent survey, said three more property companies besides Somprasong carried a high risk of bankruptcy and nine other companies which were bubbling just under the high risk category were typically saved from such a classification only by the strong backing of bankers or a rich family.

According to Mr Neil Semple, HG Asia's property analyst, each high risk company has reported profits worth less than 3 per cent of inventories, which indicates that it is sinking money into too much land or into property it cannot sell.

These four companies – along with many others – were staggering under very high accounts receivables (money booked but not yet paid) and total interest costs that were larger than profits.

Officials at the central bank are keen to play down fears that problem property companies might rip holes in the financial sector which has lent them many millions.

"We are not really worried," said Ms Nongnart Sonthisuwan, the deputy director of the Bank of Thailand's financial institutions and supervision department.

"We are satisfied that provisions provide adequate cover for lenders," she added. At the end of August, property loans accounted for a shade over 10 per cent of the financial sector's loan book.

Yet finance companies are in much deeper – at that time, just over 23 per cent of their loans were property-related.

If no systemic collapse is in the offing, some painful turbulence certainly may be. So much so that some influential members of the financial community have already called on the new government not to waste its resources by helping often well-connected families climb out of property ventures that they entered with open eyes.

Mr Banthoon Lamsam, president of the Thai Farmers Bank, told a meeting of businessmen a few days ago: "The property slowdown is not one of Thailand's fundamental problems. If some people continued to build condos and superstructures that now they can't sell... well I call that a pseudo-problem."

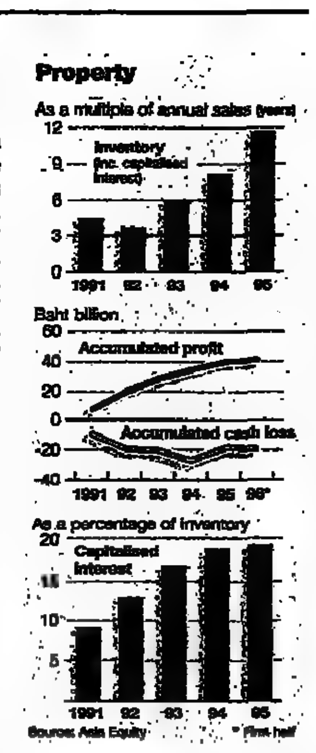
Mr Banthoon told financiers that if they found themselves suddenly owning a lot of property "You must wait and wait to sell it... trying to get the money back off the public is not a fair deal at all."

Proposed rescue schemes have already included the securitisation of property company debts, soft loans for home-buyers from a government bank, and central bank support for finance companies.

Strangely, the pain being encountered in the residential sector does not appear to be reining-in the developers of office and retail property. Properties in this sector are holding their values reasonably well, but if the furious pace of construction continues, these investments could come under severe pressure before the turn of the century.

One senior banker commented:

"I have often been impressed by my fellow Thai investors' insistence on their right to lose money."



Capital markets: by Ted Bardacke

Changes have to be made

Problems in the financial sector need to be addressed as soon as possible

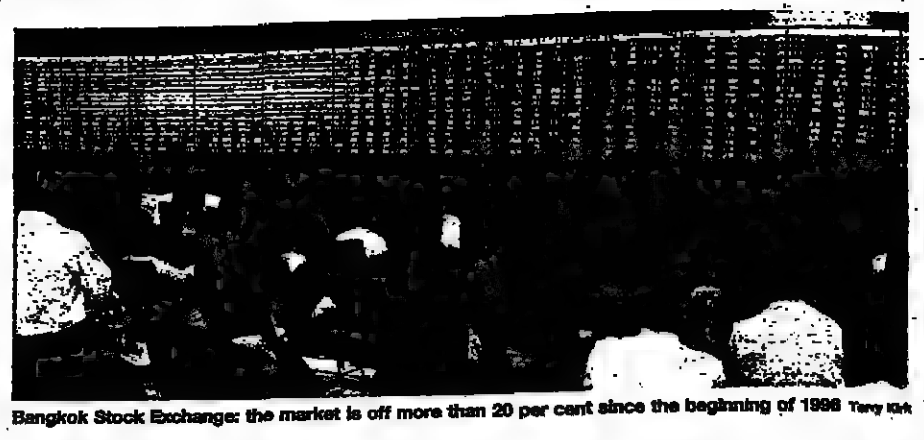
The suffering in Thailand's financial markets presents participants – regulators, policymakers, bankers, brokers and investors – with a difficult dilemma. Will the current downturn prompt a much-needed but painful cleansing and consolidation of the financial system? Or will regulators avoid clamping down on a suffering industry for fear of provoking a financial crisis?

The dilemma mirrors a larger disagreement among the country's economic elite. If Thailand's economic downturn is cyclical and part of a wider problem throughout East Asia, then muddling through and waiting for the inevitable upturn is acceptable. If the problem is specific to Thailand, then a defensive position will only prolong the pain and necessitate even more drastic measures in the future.

In the financial sector, the problems and the agenda for reform are both immediate. The stock market is off more than 20 per cent since the beginning of the year and turnover is so low that some brokerage companies are not covering their securities business costs. Commercial bank loan growth has fallen to an anaemic 16 per cent. Liquidity is tight at many finance companies.

Public offerings of equities and bonds are being postponed. In October, market turnover on the fledgling Bond Dealers Club fell to one-fifth of what it was at the beginning of the year. The dual time-bomb of outstanding margin loans and bad property loans has yet to be defused. Bankers say the number of bad checks they encounter has doubled over the past year.

Policymakers know changes need to be made and have written a long agenda for themselves. Short selling will help reduce market volatility. New commercial banks will promote investment and savings in untapped areas of the provincial market. A revamping of merger regulations will facilitate consolidation among the overcrowded finance sector. Better disclosure of non-performing loans will keep careless bankers in check. Freeing brokerage commissions will convince foreigner brokerage houses, with new products and technology, to make additional capital investments.



Bangkok Stock Exchange: the market is off more than 20 per cent since the beginning of 1996 Terry Kirk

Mr Rerngchai Marakanond, central bank governor, says: "We haven't seen the real trouble yet. We know a tornado will hit us one day. So we have to strengthen our house to stand strong when the tornado hits."

Yet in Thailand most of the policymakers are also charged with maintaining the immediate health of the financial system. They fear these measures will hurt a number of important market players, thus exacerbating already existing weaknesses.

"What is to be done will be done. We have to be competitive and fill in the missing infrastructure," says Mr Prakorn Malakul Na Ayudhya, secretary-general of the Securities and Exchange Commission. "But in certain areas we have to consider the timing. If you give sick people germs to develop immunisation to disease, you might just make them sicker."

There is one area where the news is all good. Institutional investors are becoming the dominant force in the Thai market and can only get stronger. Eight new mutual fund licences have been granted and 30 applications for private fund management licences are being considered.

Beginning next year, a host of private companies will be required to set up provident funds for their employees. The scheme, expected to raise Bt4.6bn annually (60 per cent of which can be invested in equities), includes commercial banks, finance and securities companies, life insurance companies, listed companies with government concessions and companies receiving Board of Investment privileges. A whole new pool of long-term investment capital will be pushed into the market.

But some areas are bottle-necked in seemingly endless bureaucratic discussions. Tax issues are slowing the implementation of short selling, mergers among finance companies and the development of the recently-launched over-the-counter market, while the bond market suffers from the finance ministry's reluctance to issue bonds which would act as a benchmark. New domestic banking licences are awaiting the signature of a finance minister.

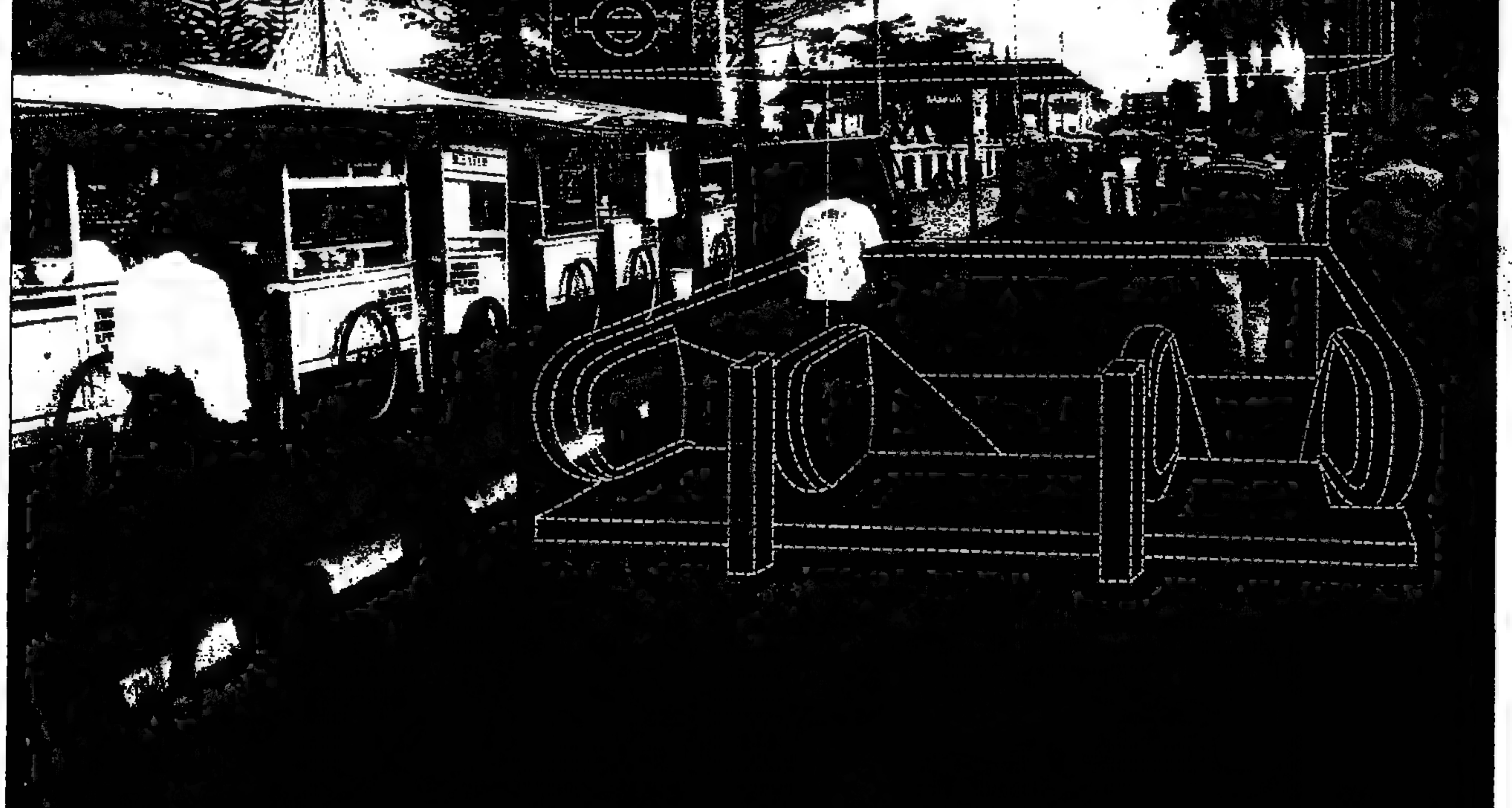
There is real division on brokerage commissions. The SEC has decided they should be freely negotiated, thus providing an incentive for foreign brokerage houses to keep their trades on-shore and develop new products in tandem with lean domestic sub-brokers. But with profits at domestic brokerage houses falling, the SEC has refused to set an implementation deadline.

Analysts have suggested that some of the problems in the finance sector could be solved with a healthy dose of securitisation, whereby packages of well-performing assets could raise enough money to loosen the liquidity situation and provide for reserves against the growing mountain of bad debt.

A few ground-breaking securitisation deals – such as Tisco Leasing, Bank of Asia and Isuzu Hat Yai – have gone through, but as of yet there is no up-to-date securitisation law, making legal fees on these issues prohibitively expensive for many companies.

However, the big securitisation move will likely take place with bad debt rather than good. The central bank, together with Thai banks and finance companies, is working on a plan whereby a new financial institution, partly government-owned, will buy bad property loans and collateral from the banks and finance companies at a discount, keep the collateral and securitise the loans. There are many difficult hurdles to implementing such a system – who is going to pay to set up the new institution is a big one – but if it can be done, so can many other things.

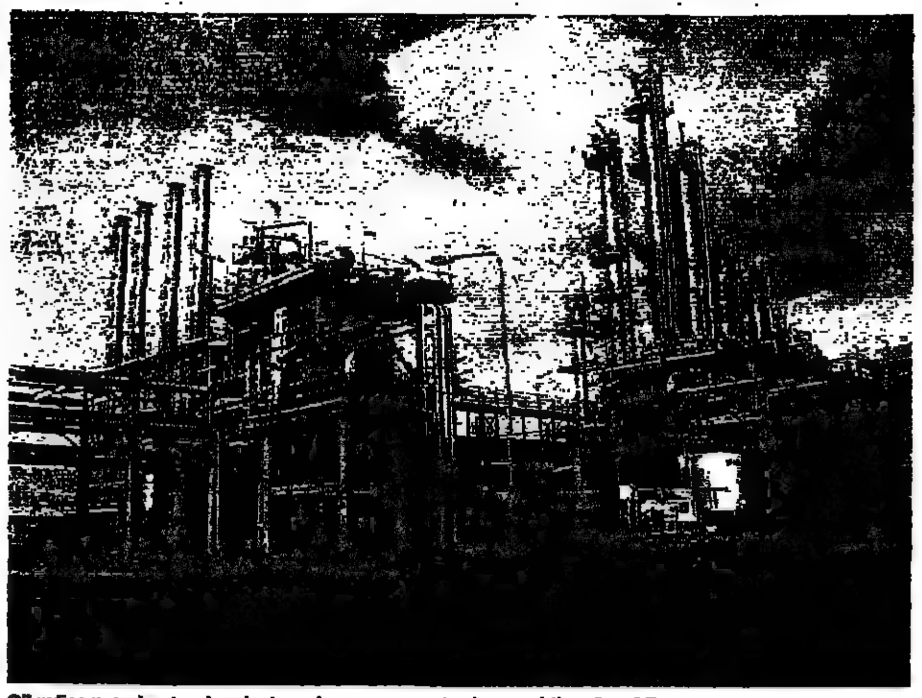
Thus, in a backward manner, the end result could be the streamlining of the country's securitisation regulations. It is likely that solutions to other problems in the financial system will be designed in this awkward way.



■ **Eastern Seaboard:** by Ted Bardacke

New investment pours in

Investors in the region qualify for a host of government tax incentives



Oil refiners and petrochemical producers are centred around the city of Rayong *Picture: Bureau Bangkok*

The names have been copied straight from a list of the world's biggest multinationals. General Motors. Mitsui. Bayer. Ford. Shell. Kobe Steel. Spicer. Hoechst. Kelloggs. Electrolux. Union Carbide. Tetra-Pak. Toyota. They, and many others like them, are all there.

"There" is Thailand's Eastern Seaboard, a four-province area that ranges to the south and east of Bangkok and is south-east Asia's most concentrated area of heavy industry.

By the end of the century, the area – dominated by vast fruit orchards and quiet fishing villages just a decade ago – is set to surpass Singapore in petrochemical and oil refining output, rival Korea in steel-making, and be Asia's largest hub of vehicle manufacturing and parts suppliers outside of Japan.

It may also become another Bangkok – or even part of Bangkok. It is a wide strip of congestion where polluting smokestack industries nestle up against luxury resorts and slum housing, and public infrastructure creaks under the massive influx of migrant labour from every corner of Thailand and migrant capital from every corner of the world.

In classic Thai fashion, plans for the area envisioned a different scenario. Success was to be gradual, while potential disaster was to be avoided. Heavy government investment would lead the way and private investment would follow a detailed master plan.

But after spending the mid-1980s bickering internally over how to co-ordinate development in the region, the Thai government did what it does best: provide a few key pieces of infrastructure, mix in a load of investment incentives and let the private sector take charge.

Two new ports help attract investors. Map Ta Phut is a deep sea industrial port with facilities for loading dangerous liquids and heavy equipment. Laem Chabang is the country's newest container port, handling 700,000 standard 20-ft equivalent units (TEU) containers this year, compared to 1.5m at Klong Toey in Bangkok, whose river location limits ship size to 1,400 teus. Next year, Laem Chabang's throughput will surpass Klong Toey and construction is under way to increase capacity to 2.25m teus.

New roads and rail links criss-cross the area and link it with Bangkok and the country's populous Issan region directly to the north. Mammoth private industrial parks – which provide a way for foreigners to circumvent prohibitions on land ownership but which guarantee electricity, water and waste disposal – dot the landscape. A 2,000-acre high-technology industrial park, Alphatecnopolis, has drawn companies such as Texas Instruments and AT&T.

Investors in the region get a host of government tax incentives, depending on the specific province and export mix of production. Generally, such incentives include exemption or reduction of import duties on machinery, seven to eight years of corporate tax exemption and some tax breaks on imported raw materials.

Since 1992, the eastern seaboard's four provinces have attracted \$56.6bn in new investment, creating 356,838 jobs, compared with \$11.7m and 287,357 employees in the four provinces that make up greater Bangkok.

And without any planning, four distinct sub-areas have emerged, moving due north and down the manufacturing production chain. On the coast, centred around the city of Rayong and lured by the terminals at Map Ta Phut and a natural gas pipeline from offshore fields in the Gulf of Thailand, are the oil refiners and petrochemical producers. Thai Petrochemical Industry also plans Thailand's first complex producing steel directly from iron ore.

Above the Rayong area is a host of petrochemical-based plastics plants, cement foundries and steel mills, creating stainless, hot and cold rolled products. These raw materials are building the third area, just emerging, where vehicle manufacturers and their parts suppliers will use the steel and plastic to build cars and trucks.

This pattern is mutually reinforcing. At the 5,910 rai (1 rai = 1,600 sq m) Eastern Seaboard Industrial Estate, owned by Hemaraj Land and Development, Ford purchased 352 rai late last year for a new factory now under construction. A year later Hemaraj has sold 170 additional rai at the estate to Ford's affiliates and direct suppliers. A similar phenomenon is likely to occur with General Motors which recently closed a deal with Hemaraj to buy 300 rai within 500m of Ford's plant.

The area's low population concentration means assembly industries are unlikely to follow in great numbers.

"There is not a lot of labour and the industries around here are capital intensive and pay high wages. Light industries can't compete in the labour market," says Mr Pairot Sompouti, head of the Board of Investment's Eastern Seaboard Office, which is physically bigger than the BOI's head office in Bangkok.

He says the northernmost province of the eastern seaboard, Prachinburi is the place of choice for light industries because it is closer to population centres.

Since 1992, the second-most-popular investment site for light industry, after Prachinburi, has been Nakhon Ratchasima, gateway to the Issan region, thus creating a corridor that allows both industrial companies and workers to avoid Bangkok for the first time since Thailand began its modernisation drive.

Yet even without labour-intensive industries, the eastern seaboard's population is expected to double to about 6m people within 15 years. It will be a diverse population of lowly construction workers, skilled manufacturing workers, Thai engineers and managers and expatriate executives and specialists. The area's ability to handle this influx is still an open question.

What the private sector can provide at a profit will get built and will prosper. Hospitals are sprouting up at breakneck pace; luxury condominiums and manicured golf courses are plentiful; the seedy and overbuilt beachside resort of Pattaya is taking on a new air with marinas and shopping malls. Private schools are barely able to cope with demand.

"The critical mass is coming," says Mr Richard Poulton, the new headmaster of the year-old International School of the Regents. "The entire school list has to be reprinted every Monday we have so many new students," he says, picking his way around a chaos of new construction to show a visitor a room teeming with new computer equipment.

Yet some of the new roads are already congested and although there is sufficient electricity, water and drainage for the entire area, local distribution is still a problem. Worker housing, unless it is provided by employers, is largely makeshift. Thailand's system of no local taxation means that provisions for such items as government schools will have to grind their way through the cumbersome national budget process, where officials are likely to balk at the high cost of acquiring land, the price of which has been driven up sharply by the influx of investment.

Meanwhile, companies say they are storing growing amounts of toxic waste on their factory sites because the area still has no hazardous waste disposal facility. Prospects for the construction of a facility brightened considerably earlier this year when the leader of a group of villagers protesting the plant's proposed location was assassinated.

PROFILE Gen Chavalit Yongchaiyudh, prime minister

Part of a long tradition

In 1990, Gen Chavalit Yongchaiyudh retired as Thailand's Army commander, set up his New Aspiration party (NAP) and announced that he was going to be a new kind of politician: determined to become prime minister while adhering to "correct principles."

"Politics is a system of administration by money and power," the country's new prime minister said in an important speech outlining his political views. "I will not make the same mistakes."

Thais are noted for their short political memory. But they can be excused for forgetting Gen Chavalit's sweeping declaration. Six years on, he has done little to convince Thailand that he is not all about power and money.

Chavalit: 'To be a purely good guy all the time is very difficult'

Gen Chavalit, the second-most-powerful man in the recently-ousted government of Mr Banharn Silpa-archa and who concurrently held the posts of deputy prime minister and defence minister, twice meddled in the annual promotions of senior military officers – and then protected those officers from parliamentary scrutiny – in a successful attempt to secure his power base in the military.

On the money front, he ignored the country's telecommunications master plan by awarding lucrative contracts to Thailand's existing oligopoly, and he fought for some of his military cronies to get a commercial banking licence despite being ruled ineligible.

Gen Chavalit, 64, says these moves, like many of the things he has done over his long career, were misunderstood.

"The war veterans didn't get a bank. The telecoms master plan is still there," he said in a recent interview.

Support for the bank "was tactical, so you don't have a bad mood from somebody else," while awarding more contracts in the telecoms industry, albeit to his business supporters, ultimately resulted in falling rates for consumers.

Gen Chavalit's NAP became Thailand's largest party only by accepting a huge influx of discredited politicians from the Chart Thai party of Mr Banharn, the ousted prime minister.

The NAP was also widely seen to have been a lavish spender in Thailand's most expensive election on record.

"Vote-buying, money politics; it is a very bad thing," Gen Chavalit says. "But in politics to be a purely good guy all the time is very difficult."

Despite having engaged in electoral tactics similar to those of Mr Banharn, Gen Chavalit is from an entirely different mold. Worldly and with a strong sense of history, he is part of a long tradition of Thai soldier-turned-businessman whose business is politics.

Since entering politics, "Chavalit has grown more and more like the military politicians of the classic style", says Chang Noi, a cultural and political commentator.

"Chavalit is not just another politician. Nor should he be dismissed as simply an opportunist. He has become the torch-holder for one of the major traditions in Thai political life."

This is a curious role given that the military establishment had long been wary of Gen Chavalit.

A staff officer rather than a field soldier, he was the architect of a successful strategy to end Thailand's communist insurgency in the 1980s by focusing on political rather than military offensives.

As a member of parliament, he opposed the military coup which led to the massacre of scores of demonstrators in 1992. During elections later that year, Gen Chavalit was labelled an "angel" and joined the Democrat-led government.

He later left that government, blocking democratic reforms that would have subjected local officials to elections.

"Political reform does not mean you have to have more democratic government," he says.

His unease with democracy certainly extends to the international arena, where he has supported Burma's military junta and aided Cambodia's genocidal Khmer Rouge.

Now Chavalit says he will use status as a "brother" and "drinking buddy" of Burmese senior general Than Shwe to push for democratic reforms in Burma.

He has used his connections with the Khmer Rouge to help facilitate an important defection of the guerrilla forces to the Cambodian government, although Mr Norodom Ranariddh, Cambodia's first prime minister, accuses him of trying to deliver the rebels to his rival, Mr Hun Sen, the second prime minister.

Similar blurring of principles have taken place in the formation of Gen Chavalit's cabinet.

In his election campaign, Gen Chavalit flatly ruled out forming a cabinet whereby seats were allocated according to a quota system.

But when the reality of forming a government faced him, coalition parties were given one cabinet seat for every five MPs they controlled and he was unable to merge the control of economic ministries under one party.

Some say the "angel" tag was inappropriate and have given Gen Chavalit a different label: Khong Baeng, a warlord from the Chinese classic *Romance of the Three Kingdoms* who is known for his subtle yet manipulative tactics.

"Gen Chavalit," says Mr Surin Pitsuwan, opposition MP and former deputy foreign minister, "is everything to everyone who is anybody to him."

Gen Chavalit says: "Everybody in politics is my friend. But now that I am prime minister I can't be a yes-man."

Yet his self-acknowledged "difficulty" in saying no to these friends could eventually be his undoing.

The most important issue of his government, beyond restoring economic stability, will be political reform. Gen Chavalit will have to strip power from some of his friends in favour of the common interest.

If he fails to do this, faith in his government will erode rapidly.

He has predicted as much himself. Back in his 1990 speech, he did say one thing that has stood the test of time. "At present there is talk of a crisis of faith. With talk like this, sooner or later a government will usually come apart."

Ted Bardacke

Tourism: by William Barnes

Competition gets fierce

The industry will have to adapt to an era of structural change in the market

Across the valley, a garishly coloured bird flies into a gentle mist while somewhere in the jungle a monkey howls and up ahead an albino water buffalo steps carefully down neat rice terraces into a setting sun.

This is Thailand at its most seductive – but at $200 a night the exotic does not come cheap.

If ever a project was the stuff of dreams in the minds of Thai tourist officials it may be the extraordinary teak structures of the new Chiang Mai Regent.

The hotel, built around designer rice paddies in a private valley, is designed for well-behaved, high-spending foreigners who are happy to drop out for a few days in the northern hills.

It has not wrecked the environment; its visitors do not chase loose women, and the project provides work for a rural population.

The problem for many in the tourist business is that this represents the cream of an increasingly thin trade whose numbers have been propped up by visitors from China and Russia and other emerging markets for Thai holidays.

Thirty minutes away from the Regent, in Chiang Mai itself, Mr Somboon, who runs a guest house near the Ping River, bemoans his bad luck: "We had a little place that was always full – so we bought a bigger place because we thought more and more foreigners would come."

Mr Somboon readily admits he was wrong; the guest house has been empty for a fortnight.

This is a far cry from the mid-1980s when the Thai tourist trade exploded into life as western holidaymakers discovered a fashionably exotic land at the end of newly-affordable long-haul flights.

The growth was fuelled by a Visit Thailand Year 1987 promotion that boosted arrivals by more than 23 per cent in that year and which became an almost legendary promotion that many have tried to copy. Nearly a decade later, even Burma's military dictatorship has optimistically declared this to be Visit Myanmar Year 1996.

Thailand's problem is that as the millennium approaches, and as Burma's generals will discover, the competition for increasingly choosy tourists is becoming ever more fierce.

At least one of the big hotels in Chiang Mai tries to fill its rooms by offering itself to elderly Britons as a cheap alternative to traditional seaside resorts on the Atlantic.

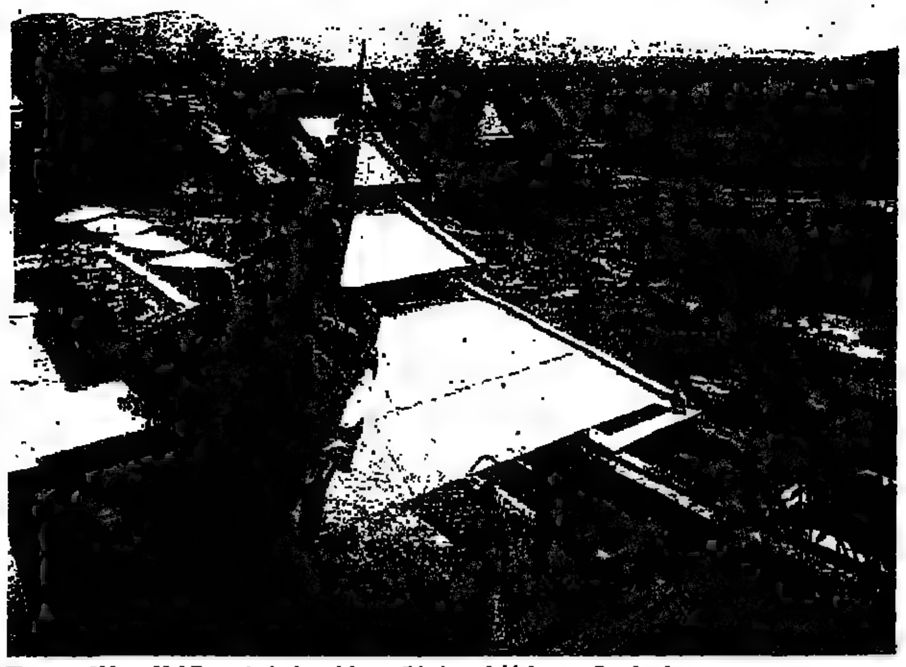
Thailand is not Paris, admits Mr Pradech Phayakvichien, deputy governor for planning and development at the Tourist Association of Thailand (TAT).

"You can go back to Paris every year, but if someone comes here for just a beach and a palm tree, he or she is going to be jaded by his third or fourth trip," he added.

Yet the TAT now eschews the Visit Thailand Year style of promotion as too blunt an instrument to try to capture customers. "It is an outdated concept. We can not consider ourselves a holiday supermarket catering for everybody – we have to be more selective," says Mr Pradech.

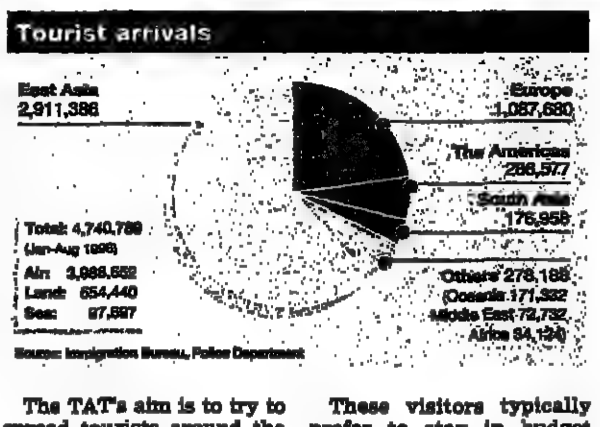
When tourism was expanding rapidly, few people worried as developers erected high-rises along beaches and quaint old houses were brushed away in the rush to capture tourist dollars.

"Our society will not tolerate such slash-and-burn development any more. We don't have to be open to everybody – it could do more harm than good," the deputy governor argues.



The new Chiang Mai Regent: designed for well-behaved, high-spending foreigners *Picture: Kevin Orpin*

Tourist arrivals



Source: Immigration Bureau, Police Department

The TAT's aim is to try to spread tourists around the country more, encourage more diverse activities such as river rafting and chivvy the industry into taking more care of the environment.

Almost seven million tourists visited Thailand in 1995 – an increase of nearly 12.73 per cent on the previous year. This figure is expected to rise by about 5 per cent this year; the smallest increase in arrivals – except for the years of the Gulf War and domestic political turmoil – for a decade.

Not only is the number of visitors growing at a slower rate than optimistic luxury hotel investors have anticipated, but more and more visitors are arriving from within the region or from eastern Europe and Russia.

These visitors typically prefer to stay in budget hotels and spend their money shopping and eating – which surprisingly means that their total holiday spending is typically more than that of the average western or Japanese tourist.

Most people are too polite to say it, but east European and Asian tourists have enabled a tacky seaside sex resort such as Pattaya to transform itself into something similar to the holiday resorts that sprung up along the Spanish coast 20 years ago, to serve European mass tourism.

Yet this still leaves many big hotels half empty in what have become secondary tourist centres such as Bangkok or Chiang Mai.

Mr Pradech is unsympathetic: "It is not our fault if investors made their plans on the assumption that visitor arrivals could keep growing at 20 per cent a year."

He adds that the industry must accept that the market is going through a structural change – that it was not realistic to expect the past decade to repeat itself.

While most people in the business would accept Mr Pradech's comments about the need to channel tourism in positive directions, there is also a suspicion the industry has been losing steam for a number of years.

Mr Pradech still reckons that once the industry has adjusted to a tougher, rather different tourist market, it will catch niche customers – not just wealthy visitors to the Regent's palace in Chiang Mai, but the Korean honeymoon market, Yunan Chinese and even the Vietnamese nouveau riche.

Thailand also expects to reap the benefits of being next to Indochina and Burma – the frontier of south-east Asia – and hopes to be able to siphon off some of the visitors attracted to the Olympic Games in Sydney in 2000.

But the TAT's deputy governor insists: "This is not just a numbers game – this is also about doing something that will help our society."

Urban Thai Buddhism: by Ted Bardacke

Numerous new sects

Some seeds of reformation are emerging even as tradition is breaking down

It is impossible to go anywhere in Bangkok without running into Buddhism.

Temples are scattered in every nook and cranny of the city and monks clad in saffron robes dominate the streets at dawn, receiving alms from the faithful. Later in the day these same monks offer marriage counselling, hospice care, astrological advice and the promise of success when opening a new business or moving to a new house.

Buddha images sit prominently in the darkest, drug-peddling nightclub and hang from a gold chain around the neck of the sleaziest brothel owner.

Amid all the talk of economic crisis, political instability and social upheaval, Buddhism is a comfort to many. Along with the monarchy, it ensures social harmony and enforces a fair moral code by acting as the dominant cultural force unifying Thai people.

Or does it?

A Sunday visit to one of the country's largest places of worship, the sprawling Dhammakaya Temple on the outskirts of Bangkok, shakes one's faith in this classic stereotype of an egalitarian religion that has no orthodoxy and preaches the suppression of individual desire.

In a scene reminiscent of a summer-time open-air Protestant revival meeting, scores of young people dressed in all-white clothing sit at the feet of monks who teach a gospel of monetary success as an integral part of spiritual well-being and closeness to the Buddha.

Other followers line up, credit cards in hand, to make donations, recorded on computer and which help Dhammakaya to expand its congregation internationally. For those who prefer to buy their merit in another way, temple-owned shops sell offerings of robes and saffron-coloured plastic buckets crammed with canned food and other items.

Dhammakaya is just one of a number of burgeoning religious cults in Bangkok, filling a spiritual need for the growing urban middle class. Traditional Thai Buddhism – with its emphasis on harmony with nature and well-being in future lives – may have been ideal for a rural society ruled by a benevolent and absolute monarch. But for urban Thais, fully embracing technological modernity and striving for success in this life, the old ways hold little relevance.

As a result, the urban spiritual marketplace has seen an explosion of new offerings. There are ultra-conservative and moralistic sects, such as Santi Asoke, whose followers have become prominent politicians. A resurgence of Chinese spiritism alternately teaches compassion, hope and thriftiness. There is even a cult which worships King Rama V, arriving at his statue every Tuesday (the day of his birthday) to offer whisky and cigars and ask for economic success and political reform.

These sects provide religious guidance but are slowly eroding the social unity enforced by mainstream Buddhism, itself overwhelmed by people offering large sums of money in an attempt to offset the bad karma earned by competitive business practices.

"They're not Buddhism," says Mr Suwan Klinpanan, a young insurance administrator, referring to the new materialist sects. Early next year he will return to his home town in southern Thailand to follow the Thai tradition of temporarily becoming a monk before he turns the age of 25.

He works for a US company and therefore will remain in the temple only for seven days – Thai companies usually give the three months off for the practice – and he says his main motivation in becoming a monk is to honour his parents and make them happy.

But as an urban Thai, Mr Suwan has trouble identifying what Buddhism is. For him and his university-educated friends who rarely set foot inside a temple and claim they do not have time to meditate, Buddhism is mostly about tradition.

"The difference between someone who is religious and someone who is not depends on whether they go to the temple and attend ceremonies. But if you don't go it doesn't mean you are not Buddhist," he says.

This confusion, a main reason for the popularity of new sects, is a result of "the Sangha (the state-sanctioned order of monks) being left behind by the rapid changes in society, the breakdown of the family, the move towards individualism," says Ms Suwanna Satha-Anand, Professor of Religious Philosophy at Chulalongkorn University.

All the books a monk needs to study to be accepted into the Sangha, Ms Suwanna says, were written, edited or supervised by one person more than 80 years ago. Ninety-eight per cent of monks in Bangkok are from rural areas and are thus unable to relate to the spiritual and moral dilemmas posed by modernisation.

Urban middle class scepticism of monks has been reinforced by their involvement in scandals concerning sex, money and violence.

Within all this breakdown of tradition, there are some seeds of a Buddhist reformation. Meditation by lay people, used to counteract the stress of everyday life, is becoming more popular and is particularly suited to the individualist notions of personal choice gaining strength within urban Thailand.

Blindly following the advice given by one of the new sects or charismatic monks is "a harmless bit of cheap psychology," says Mr Sulak Sivaraksa, a Buddhist social critic. "It is an antidote but it doesn't kill the disease" of spiritual emptiness.

On the other hand, meditation is a personal and individual act. "In Buddhism you have to do it yourself," Mr Sulak says.

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■ **Steel:** by Stefan Wagstyl

Rising above the glut

Manufacturers are concentrating on high quality and specialised products

The Japanese steel industry is running hard to stand still in the face of ever-increasing international competition.

Even though Japan remains the world's largest steel producer and maker of more high-grade products than any other country, Japanese steelmakers are having to fight to make money.

The end of the boom of the 1980s plunged the industry, including the five biggest makers, into the red in the early 1990s. Nippon Steel, the largest group, scraped into the black in the year to March 1995, but it was not until 1995-96 that NKK, Kawasaki Steel, Kobe Steel, and Sumitomo Metal Industries returned to profit.

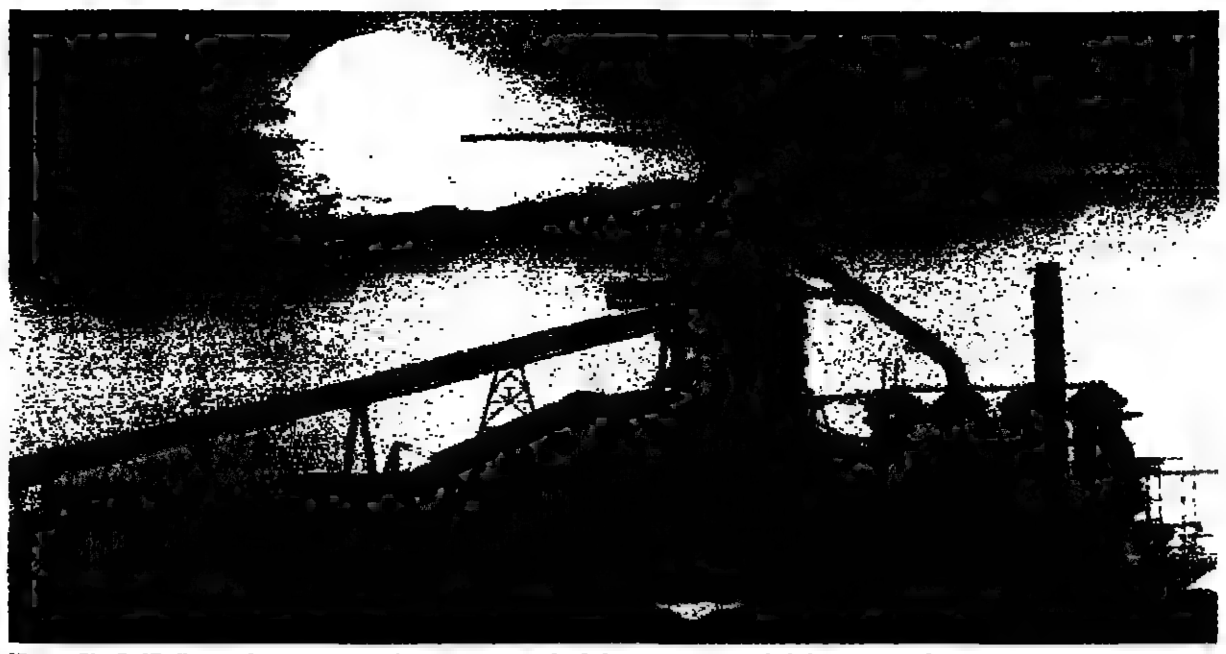
In the current year, all five companies are expecting to see a further slight improvement in profits, but have warned that the recovery is very gradual. As Nippon Steel says: "It would be wrong to be too optimistic."

Japanese companies are weathering the current downturn in prices, which started late last year, better than their main European and North American rivals.

They benefit from the fact that east Asia's fast-growing economies are consuming more steel than they can produce. But east Asian markets are open to non-Asian suppliers – so the world's excess steelmaking capacity exerts the same downward pressure on prices as elsewhere. Mr Hideji Muramatsu, the deputy director of the iron and steel division at the Ministry of International Trade and Industry, says: "There is a glut of capacity in the world."

The Japanese steelmakers have been under pressure for a long time. Crude steel output peaked as long ago as 1974 at 117m tonnes, when exports were running at over 30m tonnes a year. To their credit, the producers have maintained annual production at about 100m tonnes and exports at above 20m tonnes by ferocious attention to costs and quality. Production this year is expected to be about 98m tonnes and exports 20m tonnes, slightly lower than last year, with a further decline expected in 1997.

The market has been particularly tough for the big five integrated producers because of the growth of minimills, which make low-cost steel from recycled scrap. Their share of output has grown to about 30 per cent in the last 20 years.



Nippon Steel's Kimitsu works: pressure on Japanese companies is increasing, particularly in export markets

With South Korea still a net importer of steel, Miti does not expect Japanese production to slip much further in the rest of the decade. But with Posco, the dominant Korean producer, set to overtake Nippon Steel as the world's biggest steelmaker in 1998 when it brings a big new integrated works on stream, the pressure on Japanese companies will increase, particularly in export markets. Imports into Japan, which hit a record 11.7m tonnes last year, are set to grow.

Mr Muramatsu at Miti expects that output will continue to fall slowly, perhaps to 92m-93m tonnes a year in 10 years' time. Mr Hiromuto Toda, managing director of the Japan iron and steel federation, says that international agreements on cutting carbon dioxide emissions, which come into force next year, will place additional cost burdens on producers everywhere. He believes the standards will be applied more rigorously in Japan than in developing countries including China, so making it more difficult for Japanese groups to compete internationally.

Thanks to cost control, particularly cuts in production workers, Japanese companies claim their production costs are lower than those of European and American companies and compare well with Korea's. But they run with considerably higher costs for head office and downstream operations.

Total employment has fallen since the 1970s, including a sharp reduction in the 1990s, from 190,000 in 1991 to 168,000 last year.

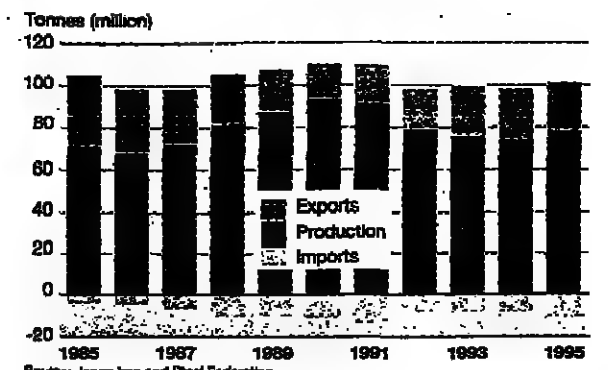
Further reductions are planned, but the scope is increasingly limited because redundancies are not an option. The jobs shed so far have gone through natural wastage, early retirement and transfer to non-steel subsidiaries and affiliates. In the 1980s, the big companies committed themselves to diversification and moved staff confidently into new activities. Nippon Steel led the way investing in semiconductor manufacture, personal computers and a spectacular leisure centre in Kyushu called Spaceworld. But many of the diversifications failed to generate the expected results.

So companies are redirecting their energies to steel. As Mr Muramatsu says, the new watchword is "back to basics". The emphasis is on making high quality steel, which Japan produces in bigger ranges and at lower cost than its competitors. The companies are also trying to make more of their specialised skills – Sumitomo Metal in steel pipes, for example, and Kobe Steel in engineering steels.

Mr Toda says that in this way, Japanese companies can compete in international markets "for a long time to come". He also thinks that they will benefit from the recent decline in the yen and from a falling interest burden. With little new capital investment to fund, the main producers are generating cash and repaying debt – unlike Korean companies. So, their financing costs are decreasing. These developments will help the producers continue to carry the costs of their expensive Japanese office staff.

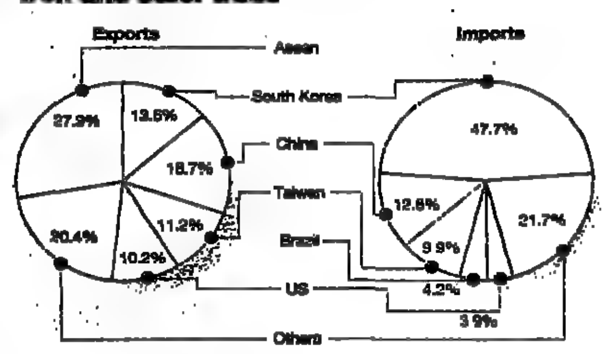
In theory, if the producers generate enough cash, and continue to refrain from big capital investments or a new round of diversification, they should have money to return to shareholders in the form of dividends or share buybacks. Mr Stephen Wolfe, steel analyst at UBS, the Swiss bank, in Tokyo, says this would be logical but unlikely. "Japanese culture is not ready for that."

Crude steel



Source: Japan Iron and Steel Federation

Iron and steel trade



Source: Japan Iron and Steel Federation 1995 figures

■ **Research & development:** by Stefan Wagstyl

Struggle to close the innovation gap

There is concern that Japan will be left behind unless it invests more in research

Japan is struggling to finance its ambitions to match the west in technological research and development.

The government this year pledged to double public spending on R&D to Y17,000bn in five years. But it is by no means clear that the finance ministry will agree to pay for such an increase at a time when the budget is under great pressure.

Also, the government's promise to boost public R&D spending coincides with a tough squeeze in corporate R&D triggered by the recession of the early 1990s.

While companies in high-technology industries regard R&D as an essential element of their future prosperity, they have become much more careful about how they spend their funds. The prestige state-of-the-art laboratory buildings of the 1980s are out. So is simultaneous pursuit of scores of projects. Instead, companies are trying to target spending more closely on areas where they feel they can secure the most commercial benefit.

For example, at Toshiba, the electrical combine, the central R&D research staff has been cut from 2200 to 1500. Dr Akinobu Kasami, senior vice president for technology, says: "In order to focus research resources on high-potential areas, we are more selective in our choice of research projects."

Japan's R&D spending as a percentage of GDP is – at 2.8 per cent – somewhat higher than the US's or Germany's.

But the Japanese figure includes a much bigger proportion of commercial development work, much of which is done on the factory floor and not included as research spending in western countries. Japan spends considerably less than its major competitors on basic research. The government's share in R&D spending is only 21 per cent in Japan compared with 36 per cent in the US and 37 per cent in Germany, according to the *Science and Technology Agency*. Since governments tend to make the largest contribution to long-term basic research, the low share of government spending in Japan indicates that spending on basic research is also low.

Moreover, it is not just a question of money. The government's white paper on science and technology, which proposed doubling public R&D spending, also put forward a string of reforms. Too much of Japanese public sector R&D is in the hands of university departments in which innovation is stifled by excessive bureaucracy, inflexibility and extreme regard to promotion by seniority.

As Mr Hiroshi Iwano, deputy director of the technology research and information division of the Ministry of International Trade and Industry, says: "We need more flexibility about appointments. And more accurate evaluation. We are not good at evaluating people in Japan."

The government first started considering the issues 10 years ago, but Japan's rapid growth in the 1980s took away any sense of urgency. It seemed only a matter of time before Japan, principally through its high-spending companies, would close the innovation gap with the west.

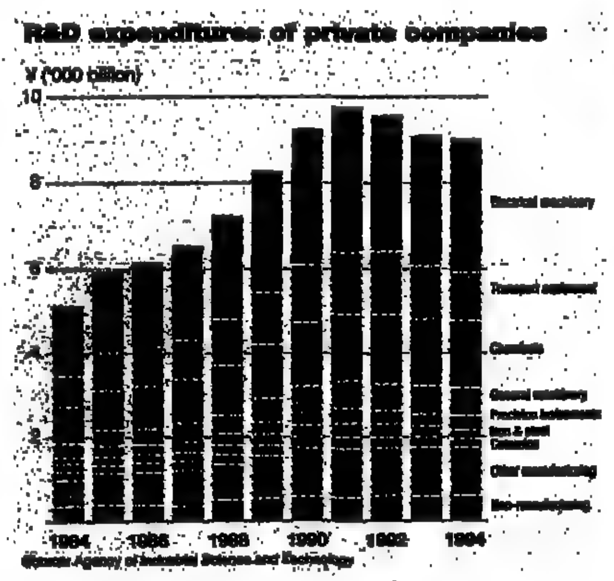
But the recession has dashed these hopes and given a new sense of urgency to R&D reform. Today government officials are seriously concerned Japan will be left behind in international economic competition unless it invests more in research.

A Science and Technology Agency survey this year found Japan lagged behind the US and Europe in key technologies – including life sciences, materials, oceanography, telecommunications and electronics.

Some Japanese efforts are already bearing fruit. In superconductors, for example, Japan has tried to keep up with western advances at a national laboratory for superconductors, which was founded in 1988, and now has 150 researchers. Professor Shoji Tanaka, the director and the doyen of Japanese physicists, says developing superconductors is a long-term investment since the first commercial products might not emerge until 2005-10. He says Japan's main shortcoming in the field in comparison with the US is in its failure to generate many venture capital companies. "We miss this important potential source of innovation."

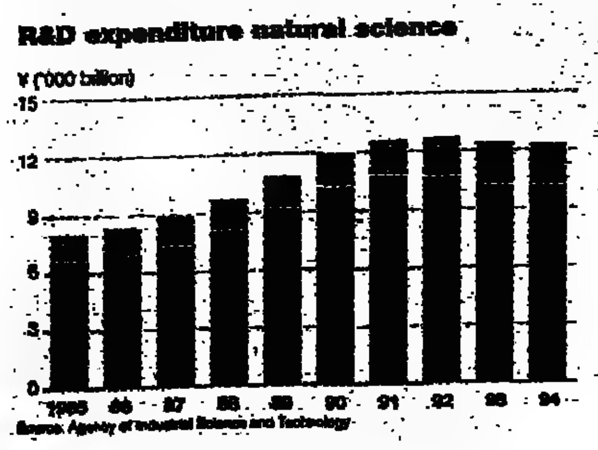
At Miti, Mr Iwano believes raising the standard of Japanese research will take a long time. "But if we don't do it we cannot expect to have a bright future."

R&D expenditures of private companies



Toshiba's Digital Video Disc player: the company is focusing research on high potential areas

R&D expenditure natural science



PROFILE Industry leaders by Stefan Wagstyl

Routes to the top

While traditional corporate structures are still strong, some entrepreneurs have found ways to bypass the system

Shoichiro Toyoda

Mr Shoichiro Toyoda, the chairman of Toyota Motor and of Keidanren, the business leaders' organisation, rarely lets his emotions show.

He likes to answer interview questions with the help of written answers, giving little away in small talk, let alone jokes.

Yet, it would be wrong to assume that the 71-year-old Mr Toyoda has risen the top of Japanese corporate life merely because he was born into the family which founded Japan's biggest motor company. Mr Toyoda has the shrewd and careful air of the professional engineer. He has a doctorate to his name and a PhD thesis on fuel injection. He might have spent his time at Toyota on undemanding postings, but instead worked hard in the bowels of the business, in quality control and factory management. In 1980, he won the Deming Prize, Japan's highest accolade for quality management.

While he is not one for leading from the front in developing a role for Japanese business in the 21st century, Mr Toyoda has a commanding grasp of challenges the country faces. The Japanese, he says, must not be complacent. The country needs further economic deregulation. "We have to reform and cut our high costs if we are to compete in the future."

Mr Toyoda believes that Mr Ryutaro Hashimoto, the prime minister, is serious in his commitments to further economic liberalisation.

Japanese companies should become more global, according to Mr Toyoda. It is necessary for companies both to compete and co-operate in international markets.

"I want Japanese business to be more outward-looking," he says.

Hideo Sawada

If anyone has shown that it is possible for one man to get the better of the combined forces of the Japanese business establishment it is Mr Hideo Sawada.

Mr Sawada, the 44-year-old president of HIS, the country's largest discount travel agent, has just launched the first new independent airline in Japan, challenging the might of Japan Air Lines, Japan Air System and All Nippon Airways.

He is cutting fares in half on the busy Tokyo-Sapporo route as a first step towards bringing full competition to the domestic air market.

"I think it is possible to reduce fares, and so we decided to take up the challenge. Sombody has to, or else nothing will change," Mr Sawada told the FT when he announced his plans this autumn.

If Mr Sawada's career is any guide, he has every chance of success. As a student in the 1970s, he spent three years in Germany, where he looked for a chance to make some money. He hit upon the idea of arranging tours to the night spots of Frankfurt for visiting Japanese businessmen – charging the visitors a fee and taking commission from the restaurants and bars they frequented.

When he returned to Japan he went into the discount travel business, introducing the country to cut-price air travel.

In his first few months, his business almost failed but word of Mr Sawada's cheap tickets spread among students and his commercial future was secured. Much to the chagrin of established operators, Mr Sawada helped reduce the big differences between ticket prices in Japan and elsewhere.

He says: "We took up the challenge and now international air fares have come down tremendously."

Jiro Nemoto

Mr Jiro Nemoto has one of the best known faces in corporate Japan.

As chairman of Nikkeiren, the employers' organisation which takes the lead in annual spring pay talks with trade unions, Mr Nemoto is constantly on television during the negotiating season. In this year's ritual, he attracted more attention than some of his predecessors by proposing a wage freeze.

Mr Nemoto, a sparkling man with a clever turn of phrase, argued that curbs were necessary to lift Japan out of recession, create jobs and boost the country's international competitiveness. He is likely to repeat the message when next year's pay talks begin in a few weeks' time.

A graduate of Tokyo University's law department, the top school of the Japanese elite, Mr Nemoto has spent most of his career in the shipping industry, rising through the ranks of the NYK line. He became the company's president in 1989 and chairman last year, when he also took the top job at Nikkeiren.

Thanks to his experience in shipping, Mr Nemoto developed an internationalist outlook long before it became fashionable among Japan's business leaders. He talks fluently about the need for deregulation in Japan, arguing that the country can learn from the example of the US. But he feels the pursuit of free markets should be tempered with caution since the most extreme options – such as mass redundancies – would not be desirable in Japan. He said in an interview this year that Japan had to become more market-oriented. But he added: "It was easy for US managers, because they had share options and golden parachutes. But were the people actually working for them better off... Today their society is not healthy. We do not want to follow such a way."

Jiro Nemoto, chairman of Nikkeiren, the employers' organisation, argues that wage restraint is necessary to lift Japan out of recession

Shoichiro Toyoda (left), Taizo Nishimuro (centre) and Masayoshi Son

Taizo Nishimuro

Mr Taizo Nishimuro's appointment this summer as the president of Toshiba, the electrical engineering group, surprised even some of his close colleagues at the company.

His appointment broke with tradition in three ways. First, he had spent 14 years overseas, a long time in a country where head office jobs are regarded as the best way to the top. Next, 60-year-old Mr Nishimuro leap-frogged nine other executives to secure the job, a big change in a culture where seniority matters. Finally, Mr Nishimuro is an electronics expert in a company which until now has always been headed by executives from Toshiba's heavy engineering division. He joked after his appointment that he was the first president to have needed lessons on how electricity was generated. The sprightly Mr Nishimuro does 120 press-ups a day and speaks fluent English, learnt during his postings in the US. His expertise is in consumer electronics, semiconductors and personal computers.

He brought his energy, his international outlook and his technical knowledge to bear this year in bringing to a successful conclusion the talks between electronics makers over a common standard for digital video discs. The experience earned him the nickname of Mr DVD.

Mr Nishimuro, an economics graduate from Keio University, an elite private college in Tokyo, first travelled abroad as a student when he spent a few months in Canada.

The slang he learnt working in a lumber yard in Vancouver later served him in good stead selling Toshiba televisions in the US.

Electronics analysts believe Mr Nishimuro has his work cut out at Toshiba, which sometimes has a reputation for being less sharp than some of its rivals, despite its technological prowess.

Mr Nishimuro's motto may come in handy: it's never too late to learn.

Masayoshi Son

Mr Masayoshi Son, the president of Softbank, Japan's largest software distributor, is seen by his admirers as the Bill Gates of Japan. If anything, his life is even more remarkable than that of the Microsoft founder.

Mr Son was born in 1957 in a shanty town in southern Japan to ethnic Koreans who kept chickens and pigs for living.

As a teenager he emigrated to the US to learn English and later to gain a degree in business studies at the University of California.

His first business was importing video games from Japan, while still a student. Then he developed a pocket electronic translator which he sold to Sharp, the Japanese electronics group.

Returning to Japan in 1979, Mr Son invested in software distribution because he believed it would be a high-growth industry. After a couple of false starts, Softbank blossomed into a distributor with 15,000 outlets.

After floating Softbank on the over-the-counter market in 1994, Mr Son embarked on ambitious acquisitions and diversifications. In the US, he paid Y180bn for Ziff-Davis Publishing, the world's largest publisher of computer magazines. Softbank has also bought a 36 per cent stake in Yahoo!, which supplies a well-known Internet search engine.

In Japan, Softbank this year announced a partnership with Mr Rupert Murdoch's News Corporation for a digital multi-channel satellite TV service in Japan and jointly bought a 21.4 per cent stake in Asahi National Broadcasting, one of Japan's leading TV broadcasters.

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IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (x)

4 Rue Jean Monnet, L-2180 Luxembourg 352 4349 [illegible]

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity		$48.82	49.55	—	-
North America Equity		$86.44	85.87	—	-
Japan Tigers Equity		$64.37	65.01	—	-
Europe Equity		$76.14	78.57	—	-
Germany Equity		DM143	143.75	—	-
Japan Equity		$47.57	48.05	—	-
Europe Bond		$82.23	82.39	—	-
US Bond		$80.06	80.21	—	-
Global Bond		$82.20	82.38	—	-
Germany Bond B		DM110.35	110.63	—	-
Spain Bond		Pta[illegible]	10290	—	-
Eastern Europe Equity F		DM153.3	153.83	—	-
China Equity F		$62.51	63.29	—	-
Switzerland Equity		SFr175	178.15	—	-

Abtrust Fund Mngrs Luxembourg SA (x)

4 Boulevard Royal L 2449 Luxembourg 00 352 227081

Abtrust Atlas Fund

	Selling Price	+ or -	Yield
Global Cap Portfolio	$3.876	+0.013	-
United States Portfolio	$5.7516	-0.046	-
Cont'l Europe Portfolio	DM5.643	+0.058	-
Japan Portfolio	¥3.981	+0.032	-
Pacific Portfolio	$8.608	+0.011	-
Gold Portfolio	$6.030	-0.096	-

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Fidelity Funds - Contd.

Country Select Funds

	Selling Price	+ or -	Yield
ASEAN	$20.69	-0.11	-
Asian Special Situations	$11.23	-0.08	-
Australia	A$16.94	—	-
Emerging Markets	$8.318	+0.001	-
European Sm Cos F	DM14.56	+0.04	-
France	FF491.25	+0.91	-
Germany	DM22.27	+0.34	-
Hong Kong	$56.71	-0.22	-
Iberia	Pta2027	+24	-
Indonesia	$11.08	+0.17	-
Italy	L14981	+123	-
Japan Smllr Cos	Y865.2	-7.4	-
Korea F	$7.080	-0.020	-
Latin America	$8.558	+0.142	-
Malaysia	$35.73	-0.20	-
Nordic	SKr201.8	+2.8	-
Singapore	$26.24	-0.12	-
Switzerland	SFr115.81	+0.13	-
Thailand	$26.34	-0.48	-
United Kingdom	£1.186	+0.001	-

Bond Funds

	Selling Price	+ or -	Yield
European	Ecu17.38	+0.02	5.50
International	$1.065	-0.005	5.30
US Dollar	$5.732	+0.005	5.70
Sterling	£6.255	—	7.00
Yen	Y1894	45	2.25

Balanced

	Selling Price	+ or -	Yield
European Balanced	DM13.23	+0.12	2.11

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Mercury Asset Management S.A. - Contd.

	Selling Price	Buying Price	+ or -	Yield
Global Equity	$69.97	73.66	-0.57	0.00
Emerging Markets	$11.68	12.32	+0.05	0.00
Gold & Mining	$9.86	10.39	-0.02	0.00
Australia & New Zealand	$25.23	26.57	-0.42	0.00
Eastern European	DM40.03	42.15	-0.11	0.00
European	$41.12	43.29	-0.22	0.00
Japan	$20.57	21.66	+0.20	0.00
Latin American	$9.22	9.71	+0.02	0.00
North American	$45.16	47.55	-0.32	0.00
Pacific	$20.08	21.15	-0.01	0.00
Singapore & Malaysian	$31.65	33.33	+0.22	0.00
United Kingdom	£41.27	43.45	-0.05	0.00
Asian Opps	$28.05	29.54	+0.11	0.00
European Opps	$34.27	36.08	-0.13	0.00
Global Opps	$11.29	11.89	+0.09	0.00
Japan Opps	$17.41	18.34	+0.12	0.00
North American Opps	$43.15	45.43	-0.40	0.00
United Kingdom Opps	£18.82	19.83	+0.03	0.00
DM Reserve	DM112.74	112.75	-0.07	0.00
Dollar Reserve	$105.35	105.35	-0.01	0.00
Sterling Reserve	£118.55	118.58	-0.04	0.00
Swiss Franc Reserve	SFr107.85	107.85	—	0.00

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Aetna International Umbrella Fund - Contd.

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Credit Investment Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

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LUXEMBOURG (REGULATED)(**)

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[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

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INV TRUSTS SPLIT CAPITAL - Cont.

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OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

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PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

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WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

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Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

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Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

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- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 21(a)(iv) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
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- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress

payment. 1996
I Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
Il Dividend is paid in whole or part as a

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

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LONDON STOCK EXCHANGE

Gilt auction and Wall St fall hits stocks

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

UK stocks took a double hit yesterday, wounded by Wall Street's biggest daily decline since July, and by a disappointing outcome to the auction of £2.5bn of 5-year gilts.

The latter removed one of the props behind the equity market's recent move towards its all-time intra-day and closing highs.

And there was further extreme nervousness around European stock markets as Wall Street opened weaker again yesterday.

At the close, the FTSE 100 index showed a 16.3 loss at 4,045.2. There was more resilience in the second liners, where the FTSE 250 index posted a modest 5.7 decline at 4,421.9.

Even more impressive was the performance of the FTSE Small-Cap index, which managed a minor improvement, closing 1.5 firmer at 2,162.8.

Marketmakers were not too dismayed by London's decline, which they said was entirely expected given the sharp change in fortunes on Wall Street and the weakness of gilts.

The general consensus was that Wall Street was overbought and that a correction was needed. "But just how much of a correction is the question that everyone is asking," said one senior trader. He added that London remained relatively at ease at the prospect of a downturn in the US.

The Dow Jones Industrial Average gave up nearly 80 points on Tuesday, losing touch with the 6,500 level. The downward trend continued yesterday when the Dow was off over 30 points during its morning session.

Footsie kicked off the trading session down some 5.8 points. Trading was subdued until news of the gilt auction was published.

Covered only 1.7 times, the auction was instantly followed by a sharp sell-off in gilts as well as pockets of equity selling, which drove prices sharply lower for the rest of the day despite a number of attempts to rally. The 20-year gilt was down almost a full point at the close.

A continuation of sterling's sharp lurch downwards on Tuesday afternoon, which should have bolstered shares in the big exporting companies, had little impact on the stock market.

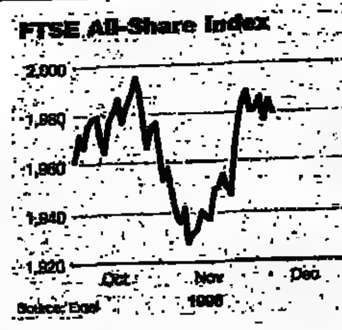
At its worst, only minutes after Wall Street opened, Footsie was down 23.3 at 4,038.2. It stabilised towards the close of business, ending 7 points off the bottom.

Among the best Footsie performers were Siebe, still responding to the good results on Tuesday and ICI, which moved up strongly in the wake of titanium dioxide price increases instigated by Du Pont of the US. Kingfisher's trading update was well received and was said to have bolstered other retailers, such as Dixons and House of Fraser.

Reports that BAT Industries has been involved in talks about the demerger of its financial services businesses – a move that analysts have been promoting for many months – triggered keen interest in the shares and in the composite insurance area.

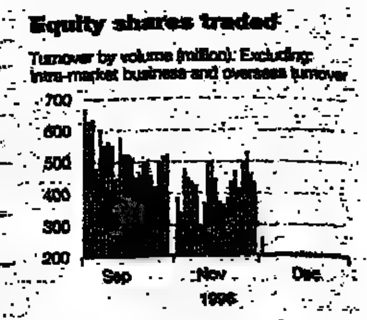
Turnover at 6pm reached 750.2m shares. Customer business on Tuesday, £956.9m, was the fourth consecutive figure below the £1bn mark.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios (Dec 3- Dec 4 unavailable)

FTSE 100	4061.5	+23.0	FT 30	2810.7	+4.6
FTSE 250	4427.6	+12.8	FTSE Non-Fins p/e	18.03	17.98
FTSE 350	2015.4	+10.2	FTSE 100 Fut Dec	4070.0	+17.0
FTSE All-Share	1986.29	+9.4	10 yr Gilt yield	7.32	7.32
FTSE All-Share yield	3.79	3.81	Long gilt/equity yld ratio	2.00	1.96

Best performing sectors
1 Banks: Retail .... +1.4
2 Water .... +1.2
3 Oil: Integrated .... +1.1
4 Insurance .... +1.0
5 Alcoholic Beverages .... +0.9

Worst performing sectors
1 Engineering: Vehicles .... –3.2
2 Oil Exploration .... –0.5
3 Gas Distribution .... –0.2
4 Health Care .... –0.2
5 Textiles & Apparel .... –0.2

Lloyds hits new record

By Peter John and Joel Kibazo

Lloyds TSB shone in early trading when two brokers, currently enthusiastic about prospects, took an even more positive view on future profits.

HSBC James Capel had been at the top of the range of brokers' forecasts with a current year estimate of £2,495m and a 1997 prediction of £2,910m. Yesterday, it repeated its "buy" stance, edged its 1996 figure higher and moved up by £46m for 1997 to £2,956m.

It said: "The group is and will remain by far the most profitable UK bank. Yet, after adjusting for the merger benefits which have still to come, the shares are only on a modest premium to the sector." It believes the stock would be more fairly valued at 500p.

Also, NatWest Securities moved to the top of the tree with a new current year figure of £2,502m against £2,386m last time, and £2,920m for 1997 against £2,765m. The stock was up 8 at best and ended the day a net 1¼ better at 424¼p.

Standard Chartered bounced 10 to 696½p as the dollar regained some of its strength and one marketmaker, which had sold a line of some 500,000 shares late on Tuesday, sought to recover the position.

Industrial controls and appliances group Siebe topped the list of the day's best Footsie performers following a broker's recommendation.

The shares jumped 19 to 969p, as BZW reiterated its buy stance on the stock, in the wake of robust figures from Siebe earlier this week. The group reported a 32 per cent rise in first half profits, at the top end of market expectations. Volume had yesterday reached 1.7m by the close. Dealers said BZW believes Siebe to have excellent long term growth prospects and to be resilient in mixed markets.

ICI rose 13¼ to 776½p on news that DuPont of the US is to raise prices. DuPont, which holds 25 per cent of the world titanium dioxide market, plans to raise US prices by 4.5 per cent and European prices by 5 to 8 per cent in January.

ICI holds a market share of around 12 per cent of the world titanium dioxide market and analysts said price increases, if they stick, should help restore operating margins at the Tioxide unit, which have fallen sharply in 1996. The news could translate to up to £25m more in full-year profits. One analyst said: "There has been a slight overreaction. But the shares are at the bottom of their trading range and the market was looking for an excuse to get them up."

Chemicals group Albright & Wilson fell 6¼ to 166p as brokers factored in a reduction in operating profits of between 6 and 8 per cent, following news that its Mexican joint venture had lost a big client.

One press report that a secret plan to split BAT Industries had collapsed sent the shares lower. The report said the plan would have involved the merger of BAT's financial business with another leading UK insurance group. BAT's demerger plan seemed to have run into trouble for unknown reasons early last week, the paper said.

The other leading insurance company was believed to be Commercial Union and while BAT dipped 3¼ to 469p, CU gained 8½ to 669½p. BAT said: "We talk to various different people about different things all the time. We are always looking at opportunities to improve the competitive position. [However] any discussions we have or don't have are better not done in a goldfish bowl."

In telecoms, general buying interest and news that Sir Peter Bonfield, the chief executive had bought 131,129 shares, helped lift BT. The shares put on 5½ to 386½p on turnover of 16m.

Cable & Wireless was the worst performing stock in the Footsie with the shares closing 13½ off at 460½p. Currency worries were said to have been a factor in the day's slide.

Kleinwort Benson was said to be cautious on Vodafone Group where the shares eased 4 to 250½p.

United News & Media gained 6½ to 686½p as Henderson Crosthwaite recommended the stock, following a meeting with Lord Hollick, the chief executive.

Figures from Carlton Communications were in line with forecasts but, once they were announced, investors chose to focus on prospects for media stocks and the impact of currency fluctuations. The shares dropped 14 to 489½p.

Media conglomerate Pearson dropped 13½ to 715½p after Mr Frank Barlow, the managing director, sold 30,000 shares. Pearson, which owns the Financial Times, said Mr Barlow was left with 38,750 shares.

Maiden, the outdoor advertising poster site company, fell 28 to 266½p as UBS crossed 800,000 shares at 263p a share. UBS also crossed 180,000 shares in More, another outdoor advertiser, and lowered its full-year forecast from £8.3m to £8m. The shares fell 9 to 532½p.

Chemicals group Albright & Wilson fell 6¼ to 166p as brokers factored in a reduction in operating profits of between 6 and 8 per cent, following news that its Mexican joint venture had lost a big client.

British Aerospace was unloved and the shares relinquished 28½p at 1121½p, after news the French government had suspended the sale of Thomson after the privatisation commission rejected its choice of Lagardere as preferred bidder. BAe was a junior partner in the Lagardere bid.

Williams Holdings hardened 5 to 344½p, with the market cheered by the better-than-expected price the group had received for the sale of its building products businesses.

Racal Electronics continued to recover from Monday's slide and the shares gained another 7 to 243p, with Henderson Crosthwaite having joined the band of brokers that are now positive on the stock following a late afternoon presentation by the company. Mr Brian Newman at Henderson Crosthwaite says the shares "have been oversold and we are now likely to see a strong recovery."

Among retailing stocks, buying from two institutions and renewed bid talk helped make House of Fraser the best performing stock in the FTSE 250 index. The shares gained 8 to 174p.

Also in favour was Kingfisher, which yesterday published an upbeat third quarter trading update. The shares firmed 1½ to 654p.

The price of gold, which hit a three-year low on Tuesday, combined with the declaration of December copper options to push RTZ 9 lower to 978½p.

FT 30 INDEX

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28	Yr ago	*High	*Low
FT 30	2799.1	2810.7	2806.1	2827.0	2824.2	2648.4	2865.2	2669.8
Ord. div. yield	4.05	4.04	4.04	4.02	4.02	4.05	4.22	3.78
P/E ratio net	17.02	17.09	17.08	17.16	17.18	15.69	17.46	15.60
P/E ratio nil	16.86	16.93	16.90	17.00	17.01	15.72	17.30	15.71

FT 30 since compilation: high 2865.2 18/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2804.3	2805.3	2805.0	2805.7	2797.7	2797.4	2796.5	2797.3	2798.7	2808.6	2796.0

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28	Yr ago
SEAQ bargains	34,436	34,559	36,228	35,610	33,584	31,428
Equity turnover (£m)†	–	956.9	671.2	972.5	971.4	1813.1
Equity bargains†	–	22,029	21,004	23,006	22,149	34,536
Shares traded (ml)†	–	380.9	259.5	436.7	475.1	657.3

†Excluding intra-market business and overseas turnover.

	Dec 4	Dec 3	Dec 2	Nov 29	Nov 28	Yr ago	*High	*Low
FTSE AIM	1035.10	1037.00	1038.20	1036.00	1035.20	–	1140.40	965.70

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	674	Total Highs	95	Total contracts	35,346
Total Falls	514	Total Lows	45	Calls	14,822
Same	1,297			Puts	20,524

Dec 4 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4057.0	4054.0	-16.0	4063.0	4040.0	13698	51219
Mar	4077.5	4075.5	-15.5	4082.5	4064.0	1818	14790
Jun	-	4094.0	-16.0	-	-	0	1813

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4436.0	-5.0	-	-	0	3430
Mar	-	4486.0	-5.0	-	-	0	1920

FTSE 100 INDEX OPTION (LIFFE) (*4045) £10 per full index point

	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P	4200 C	4200 P
Dec	208½	3	161½	5	114½	9½	71½	17	37	39½	14½	63½	4	111	1	161
Jan	228	9	182½	15	141	23	102	35½	69½	54	41½	79½	22	115	10	161
Feb	251½	23½	209	30½	169½	41½	132½	54½	99½	72½	71½	96½	47	126	29½	164
Mar	261	36½	219½	45½	182½	59	147	74	116½	94	88	117½	64½	146	45½	179½
Jun†			272	86½			209	121			182½	155½			109½	219

Calls 5,392 Puts 7,407

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P	4225 C	4225 P
Dec	182	3½	135	7	91	12½	53	24	20½	45½	8½	79	2	122½	½	171
Jan	205½	13½	161½	19½	120½	28½	81½	39½	61	50	28	87	18	123	7	165
Feb	233	25½	191	34	151½	44½	115	58	83½	76½	57	100	38	131	24	167
Mar	237½	40½	199	51½	163	64½	130½	80½	100½	100	76½	125½	58	153	38½	185½
Jun†			257	93½			193½	127			148½	170½			95½	223½

Calls 2,000 Puts 3,514 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
90	F.P.	14.1	107½	100½	†Access Plus	100½xd	-2	ab3.45	1.8	4.2	18.3
§70	F.P.	18.5	84½	72½	Advanced Power	78½		-	-	-	-
§8	F.P.	7.55	4¼	4	†Beechcroft	4		-	-	-	18.2
§157	F.P.	40.9	194½	170½	Brands Hatch	187½	-1	W8.6	1.9	2.3	18.9
§130	F.P.	35.8	162½	130	Brit Allcroft	152½		L1.6	3.0	1.3	27.0
§136	F.P.	50.8	163½	152½	Car Group	162½		W3.9	2.6	3.0	15.8
–	F.P.	6.25	8¼	6¼	†Charterhse Comms	6¼	-½	W-	-	-	14.0
§115	F.P.	4.27	122½	120½	†Dawn Til Dusk	121½		-	-	-	10.5
160	F.P.	10.2	164½	158½	†Deep Sea Leisure	162½		-	-	-	-
§275	F.P.	72.9	327½	272½	Druid Grp	318½	-4	-	-	-	34.7
§92	F.P.	9.28	97½	97½	Exeter Inv	97½		W8.5	1.8	4.5	17.4
§	F.P.	31.1	610	580	First Russian C	587½		-	-	-	-
115	F.P.	14.0	130½	122½	†Future Int Tele	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100	F.P.	89.5	113½	81½	†Geo Inter Med	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§110	F.P.	41.8	122½	114½	†Goshawk Insce	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	22.0	133	117½	Grantchester	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§80	F.P.	5.81	82½	47½	†Kam River	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§160	F.P.	28.9	226½	187½	†Majestic Wines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§136	F.P.	28.3	149½	132½	Oliver Ashworth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
126	F.P.	22.0	165½	124½	Provend	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§90	F.P.	16.1	100½	94½	†Recycling Servs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§125	F.P.	34.0	130½	130½	Scot Highland Ht	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	8.14	112½	110½	Second St David	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	1.02	10½	9½	Do Residual Cap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	10.9	165	165	Do Zero Div Prf	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§180	F.P.	17.5	226	216½	Sample Cochrane	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	F.P.	25.8	3¾	3¼	†Snakeboard	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Dec 3	% chg on day	Dec 2	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1809.86	-2.1	1839.15	1983.81	1.89	-	2310.73	1800.06
Regional Indices								
Africa (14)	2151.14	-2.1	2198.02	2232.70	3.89	30.83	3393.88	2151.14
Australasia (6)	2081.48	-4.4	2176.45	2361.88	2.71	20.58	2827.34	2005.75
North America (12)	1885.73	-1.8	1903.15	1965.39	0.78	63.04	2185.38	1848.45

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 3	Day's chge%	Dec 2	Nov 29	Nov 28	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4061.5	+0.6	4038.5	4058.0	4060.2	3664.2	3.91	2.09	15.76	165.83	1695.79
FTSE 250	4427.6	+0.3	4414.8	4428.5	4416.7	3909.3	3.55	1.49	23.59	166.90	1808.63
FTSE 250 ex IT	4466.6	+0.3	4453.9	4467.6	4455.8	3983.2	3.65	1.52	22.62	175.10	1825.61
FTSE 350	2015.4	+0.5	2005.2	2014.2	2010.0	1815.8	3.84	1.92	16.95	81.00	1718.73
FTSE 350 Higher Yield	1922.0	+0.6	1910.8	1918.4	1916.2	1809.8	5.12	1.79	13.62	101.79	1381.02
FTSE 350 Lower Yield	2116.2	+0.4	2106.9	2117.3	2111.0	1820.7	2.89	2.14	21.72	60.77	1485.11
FTSE SmallCap	2161.29	+0.1	2159.96	2161.58	2158.63	1954.21	3.19	1.56	24.85	66.37	1802.01
FTSE SmallCap ex IT	2161.06	....	2160.69	2161.49	2158.95	1933.57	3.41	1.64	22.36	70.26	1814.97
FTSE All-Share	1986.29	+0.5	1976.89	1985.17	1981.13	1789.84	3.79	1.90	17.36	78.43	1719.59

FTSE Actuaries Industry Sectors

	Dec 3	Day's chge%	Dec 2	Nov 29	Nov 28	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3898.58	+0.8	3865.24	3895.41	3881.17	3142.49	3.68	1.71	20.00	142.73	1708.80
12 Extractive Industries(6)	4229.21	+0.2	4221.67	4264.84	4226.07	4282.49	3.84	2.68	12.25	162.00	1260.51
15 Oil, Integrated(3)	4024.13	+1.1	3979.50	4007.93	3999.26	3162.74	3.83	1.55	21.01	154.38	1812.42
16 Oil Exploration & Prod(14)	2927.27	-0.5	2940.58	2949.84	2943.80	1984.26	1.80	1.72	40.33	52.93	1774.30
20 GEN INDUSTRIALS(275)	1970.88	.....	1971.47	1987.02	1988.85	1923.52	4.39	1.66	17.10	80.70	1100.30
21 Building & Construction(34)	1158.91	+0.6	1152.32	1157.38	1156.48	1013.86	3.65	1.47	23.29	39.95	987.84
22 Building Matls & Merchs(29)	1804.39	+0.5	1796.20	1798.82	1786.94	1772.89	4.29	1.40	20.80	75.00	931.08
23 Chemicals(25)	2350.21	.....	2350.24	2361.77	2373.14	2355.29	4.39	1.44	19.76	101.33	1140.17
24 Diversified Industrials(19)	1386.90	+0.3	1382.60	1396.87	1398.21	1726.42	7.34	1.61	10.60	90.53	800.22
25 Electronic & Elect Equip(36)	2234.53	+0.1	2231.74	2278.53	2298.13	2079.48	3.50	1.48	24.17	64.68	1178.70
26 Engineering(71)	2584.07	+0.1	2580.77	2597.89	2603.65	2155.03	3.18	2.30	17.07	78.11	1596.92
27 Engineering, Vehicles(14)	3171.33	-3.2	3277.44	3313.39	3283.24	2450.06	3.40	1.72	21.41	103.02	1673.90
28 Paper, Pckg & Printing(28)	2507.33	+0.1	2504.95	2513.01	2511.23	3458.12	4.13	1.82	16.62	97.81	1086.79
29 Textiles & Apparel(19)	1079.32	-0.2	1081.10	1075.64	1081.48	1465.45	6.61	1.16	16.31	69.33	682.09
30 CONSUMER GOODS(82)	3776.17	+0.3	3763.11	3788.94	3805.43	3586.19	3.84	1.93	16.86	144.40	1427.04
32 Alcoholic Beverages(6)	2725.24	+0.9	2701.54	2719.64	2730.08	2763.65	4.66	1.70	15.76	126.04	1009.07
33 Food Producers(25)	2665.29	+0.4	2654.81	2682.61	2680.96	2558.60	4.11	1.77	17.23	99.90	1229.56
34 Household Goods(15)	2605.00	+0.4	2594.26	2594.03	2613.76	2593.04	3.92	2.24	14.23	191.20	1050.94
36 Health Care(18)	2017.63	-0.2	2021.26	2014.92	2004.89	1946.69	2.98	1.93	21.71	55.92	1245.13
37 Pharmaceuticals(14)	5801.26	+0.3	5786.08	5843.15	5804.39	5118.44	2.95	2.01	21.06	172.19	2004.59
38 Tobacco(2)	3948.00	.....	3946.14	3970.20	3924.76	4752.16	6.57	2.13	8.94	262.07	1016.66
40 SERVICES(252)	2618.00	+0.4	2608.49	2617.09	2606.41	2216.31	2.87	1.97	22.06	80.37	1385.80
41 Distributors(30)	2925.51	+0.5	2910.55	2917.37	2912.89	2508.05	2.95	2.02	20.97	87.46	1098.39
42 Leisure & Hotels(25)	3226.66	+0.8	3199.48	3211.79	3217.40	2626.48	2.77	1.97	22.98	173.45	1754.90
43 Media(44)	4268.83	+0.1	4264.04	4285.31	4287.53	3594.38	2.15	2.10	27.64	93.65	1583.10
44 Retailers, Food(14)	2073.93	.....	2073.06	2083.34	2069.79	1950.85	3.80	2.28	14.43	77.71	1350.38
45 Retailers, General(45)	2132.38	+0.2	2127.53	2141.47	2110.32	1671.46	3.07	2.05	19.85	72.66	1246.05
47 Breweries, Pubs & Rest.(21)	3254.59	+0.9	3226.90	3185.62	3189.27	2721.00	3.23	2.04	18.98	74.44	1581.21
48 Support Services(50)	2722.50	+0.8	2701.91	2709.44	2704.37	1860.88	1.83	2.22	30.79	48.33	1749.24
49 Transport(23)	2614.93	+0.4	2605.29	2619.19	2615.85	2192.32	3.68	1.21	28.01	93.48	1115.92
60 UTILITIES(33)	2474.53	+0.4	2463.84	2471.94	2466.31	2466.37	5.41	1.70	13.60	180.30	1112.00
62 Electricity(12)	2665.10	+0.2	2658.87	2676.58	2656.72	2806.39	6.40	2.17	9.00	454.86	1457.06
64 Gas Distribution(2)	1467.75	-0.2	1470.95	1470.95	1467.75	1563.88	8.16	0.54	28.30	119.71	803.11
66 Telecommunications(6)	2062.99	+0.5	2053.35	2063.14	2065.86	2011.26	4.03	1.51	20.54	58.10	961.86
68 Water(11)	2301.85	+1.2	2275.22	2261.61	2250.07	2123.23	6.46	2.30	8.42	107.12	1309.13
69 NON-FINANCIALS(665)	2065.87	+0.3	2059.69	2070.21	2066.27	1890.95	3.83	1.81	18.06	84.44	1606.39
70 FINANCIALS(104)	3436.66	+1.0	3401.74	3396.97	3374.86	2929.16	3.88	2.36	13.66	127.04	1514.72
71 Banks, Retail(8)	4955.20	+1.4	4887.27	4873.24	4834.88	4174.40	3.68	2.70	12.89	175.99	1656.54
72 Banks, Merchant(6)	3940.34	+0.2	3933.12	3932.54	3945.04	3618.76	2.64	3.01	15.72	100.78	1270.17
73 Insurance(21)	1598.15	+1.0	1582.81	1589.43	1603.88	1459.09	5.25	2.29	10.38	80.65	1238.86
74 Life Assurance(7)	4005.19	+0.3	3994.24	3981.93	3954.39	3447.11	3.88	1.78	18.06	151.01	1702.86
77 Other Financial(20)	2787.37	+0.4	2775.23	2782.62	2780.57	2426.07	3.99	1.77	17.67	102.61	1625.02
79 Property(42)	1719.21	+0.1	1716.82	1704.49	1690.43	1404.90	3.74	1.27	26.33	58.50	1061.16
80 INVESTMENT TRUSTS(126)	3164.01	+0.3	3153.53	3161.98	3158.17	2899.46	2.26	1.12	49.21	66.70	1118.30
89 FTSE All-Share(895)	1986.29	+0.5	1976.89	1985.17	1981.13	1789.84	3.79	1.90	17.36	78.43	1719.59
FTSE Fledgling	1220.17	-0.1	1221.16	1221.29	1219.51	1102.07	2.85	0.68	68.27	33.22	1295.53
FTSE Fledgling ex IT	1234.69	-0.1	1236.34	1235.94	1234.29	1104.67	3.04	0.56	70.82	36.14	1312.79

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4055.7	4052.8	4040.9	4049.7	4040.2	4039.3	4039.0	4040.2	4045.5	4055.8	4038.2
FTSE 250	4422.0	4420.2	4421.2	4423.3	4422.2	4421.7	4422.0	4422.4	4422.6	4423.7	4420.0
FTSE 350	2012.6	2011.3	2009.9	2010.4	2008.6	2006.2	2006.1	2006.6	2008.7	2012.7	2005.8

Time of FTSE 100 Day's high: 8.31 AM Day's low: 2.53 PM. FTSE 100 1996 High: 4073.1 (21/10/96) Low: 3632.3 (16/07/96).

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1123.2	1122.0	1122.1	1123.4	1123.4	1123.4	1123.0	1122.2	1121.9		1125.8	-3.7
Pharmaceuticals	5781.3	5722.5	5718.4	5720.1	5703.3	5704.2	5708.5	5701.1	5703.9		5726.8	-23.2
Water	2284.8	2281.8	2275.2	2275.0	2273.4	2271.5	2271.2	2271.2	2269.5		2268.9	-18.3
Banks, Retail	5094.2	5028.8	5016.5	5011.7	5005.8	5007.1	5012.3	5014.5	5023.4	5020.1	5018.4	+4.7

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FTSE International Limited 1996. All Rights reserved. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and the Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. PLEASE NOTE: Latest prices were unavailable for this edition due to technical problems. For further information contact FTSE-International on (tel 0171 448 1834).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	471	494½	-1
ASDA Group†	9,400	119	
Abbey National†	7,100	708½	-8½
Albert Fisher	895	42½	+¼
Allied Domecq†	1,700	487½	-7½
Anglian Water	858	584	-3½
Argos†	55	782½	-2
Arjo Wiggins	519	187	[illegible]
Assoc. Brit. Foods†	532	447	-3
Assoc. Brit. Ports	148	278½	-3½
BAA†	3,100	487	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 Index constituent. All trades are rounded. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 4 / Sch)

BELGIUM/LUXEMBOURG (Dec 4 / Frs.)

CZECH REP (Dec 4 / Koruna)

DENMARK (Dec 4 / Kr)

FINLAND (Dec 4 / Mka)

FRANCE (Dec 4 / Frs.)

GERMANY (Dec 4 / Dm.)

GREECE (Dec 4 / Drachma)

ITALY (Dec 4 / Lira)

NETHERLANDS (Dec 4 / Fls.)

NORWAY (Dec 4 / Kroner)

POLAND (Dec 4 / Zloty)

PORTUGAL (Dec 4 / Escudo)

SPAIN (Dec 4 / Pta.)

SWEDEN (Dec 4 / Kronor)

SWITZERLAND (Dec 4 / Frs.)

TURKEY (Dec 4 / TK Lira)

PACIFIC

JAPAN (Dec 4 / Yen)

AUSTRALIA (Dec 4 / Aus$)

HONG KONG (Dec 4 / H.K.$)

INDONESIA (Dec 4 / Rupiah)

MALAYSIA (Dec 4 / MYR)

NEW ZEALAND (Dec 4 / NZ $)

SINGAPORE (Dec 4 / S$)

SOUTH KOREA (Dec 4 / Won)

TAIWAN (Dec 4 / TW $)

THAILAND (Dec 4 / Baht)

AFRICA

SOUTH AFRICA (Dec 4 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 4 / Can $)
4 pm close

MONTREAL (Dec 4 / Can $)
4 pm close

INDICES

	Dec 4	Dec 3	Dec 2	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18160.22	17903.51	19081.65	20/5	15557.35	29/6
Australia							
All Ordinaries(1/1/80)	2370.7	2380.1	2366.1	2394.70	25/11	2098.30	17/7
All Mining(1/1/80)	929.4	935.5	946.1	1118.40	8/5	921.30	13/11
Austria							
Credit Aktien(30/12/84)	383.36	384.05	383.85	394.99	31/5	349.19	6/2
Traded Index(2/1/91)	1132.67	1129.93	1127.06	1142.81	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1894.25	1895.55	1887.74	1895.55	3/12	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	66368.0	67356.0	68388.00	3/12	40801.60	2/1
Canada							
Metals Mins‡(1975)	(u)	5432.83	5501.71	6624.60	8/5	4887.47	18/1
Composite‡(1975)	(u)	5940.73	5984.97	6018.85	28/11	4730.70	15/1
Portfolio(4/1/83)	(u)	2966.92	3000.31	3028.75	28/11	2327.39	12/1
Chile							
IPSA Gen(31/12/80)	(u)	5031.71	5032.04	6604.38	8/1	5031.71	3/12
Denmark							
CopenhagenSE(3/1/83)	480.14	482.30	459.93	482.30	3/12	368.40	2/1
Finland							
HEX General(28/12/90)	2458.15	2462.22	2430.88	2462.22	3/12	1861.47	10/1
France							
SBF 250(31/12/90)	1548.88	1570.25	1551.97	1570.25	3/12	1250.16	2/1
CAC 40(31/12/87)	2308.65	2349.11	2318.63	2349.11	3/12	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	991.67	999.04	987.88	999.04	3/12	835.86	2/1
Commerzbank(1/12/53)	2885.5	2918.5	2889.7	2918.50	3/12	2370.10	2/1
DAX(30/12/87)	2885.07	2865.98	2858.60	2885.98	3/12	2284.86	2/1
Greece							
Athens SE(31/12/80)	918.98	916.71	917.83	1017.86	4/3	872.89	7/8
Hong Kong							
Hang Seng(31/7/64)	13434.24	13458.28	13517.56	13530.95	27/11	10204.87	2/1
India							
BSE Sens.(1979)	2745.06	2798.00	2851.43	4069.35	18/6	2745.06	4/12
Indonesia							
Jakarta Comp(10/8/82)	629.26	620.80	618.18	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2673.41	2665.88	2659.83	2700.04	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	657.65	660.80	657.83	674.10	20/5	572.21	2/1
MIB General(2/1/75)	1114.0	1121.0	1116.9	1142.00	20/5	970.00	22/4
Japan							
Nikkei 225(16/5/49)	20692.97	20830.59	20674.59	22666.80	28/6	19724.76	13/3
Nikkei 300(1/10/82)	290.59	290.14	291.25	319.70	26/6	284.49	11/3
Topix(4/1/68)	1536.36	1535.84	1542.19	1722.13	28/6	1524.12	13/3
2nd Section(4/1/68)	1931.42	1941.11	1944.07	2251.48	2/7	1931.42	4/12
Malaysia							
KLSE Comp.(4/4/86)	1222.78	1218.67	1220.16	1238.73	28/11	893.28	2/1
Mexico							
IPC(Nov 1978)	(u)	3388.44	3311.07	3403.35	27/9	2238.38	8/3
Netherland							
CBS TtlRtnGen(End 83)	722.0	730.2	721.4	730.20	3/12	559.50	2/1
CBS All Shr(End 83)	423.8	428.6	423.4	428.60	3/12	328.70	2/1
New Zealand							
Cap. 40(1/7/88)	2391.26	2378.91	2367.89	2391.26	4/12	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1594.85	1610.80	1592.47	1610.80	3/12	1259.86	30/1
Philippines							
Manila Comp(2/1/85)	3130.87	3101.36	3095.74	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	2089.90	2088.71	(c)	2089.90	4/12	1802.81	2/1
Singapore							
SES All-S'pore(2/4/75)	539.78	535.58	549.28	610.37	5/2	503.78	21/10
South Africa							
JSE Gold(28/9/78)	1516.5♥	1482.4	1523.4	2030.49	29/5	1348.40	2/1
JSE Ind.(28/9/78)	7088.6♥	7091.7	7092.8	8738.30	25/1	7092.46	21/8
South Korea							
KoreaCompEx''(4/1/80)	715.87	725.58	727.83	986.84	7/5	715.87	4/12
Spain							
Madrid SE(30/12/85)	408.86	411.42	406.72	411.42	3/12	323.75	11/1
Sweden							
AffarsvaIdsGen(1/2/37)	2334.9	2350.4	2314.4	2350.40	3/12	1708.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1851.63	1858.16	1837.11	1858.16	3/12	1516.19	17/1
SBC General(1/4/87)	1311.96	1315.83	1303.18	1315.83	3/12	1114.47	26/1
Taiwan							
Weighted Pr.''(30/6/66)	6943.64	6938.39	6982.81	6982.81	2/12	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	898.32	905.81	928.93	1415.04	6/2	898.32	4/12
Turkey							
Istanbul Comp.(Jan 1986)	91602.5	92797.7	92134.2	92797.70	3/12	38779.30	2/1
WORLD							
MS Capital Int(1/1/70)	821.7*	824.4	831.6	832.20	25/11	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1880.86	1889.49	1877.55	1889.49	3/12	1594.40	11/1
Euro Top-100(26/6/90)	1576.41	1590.23	1575.07	1590.23	3/12	1333.01	11/1
HSBC JC Dragon(31/12/88)	(u)	417.01	417.97	420.20	27/11	344.19	2/1
MS Emrgs Emg(7/1/92)	160.27	159.25	159.56	185.61	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x index)							
Dec	2332.0	2310.0	-42.0	2332.0	2305.0	19,997	32,905
Jan	2337.5	2315.0	-41.5	2337.5	2319.0	51	2,355
■ DAX							
Dec	2882.0	2865.0	-19.0	2886.0	2854.0	22,002	-
Mar	2901.5	2905.5	-20.5	2906.0	2898.5	1,461	16,892
■ OMX							
Dec	1831.00	1829.50	-18.50	1841.00	1822.00	4,212	22,122
Jan	1839.00	1840.25	-11.25	1845.75	1830.00	820	7,109
■ SOFFEX							
Dec	3912.0	3915.0	-20.0	3925.0	3906.0	5,015	22,672
Jan	3910.0	3921.0	+18.0	3925.0	3913.0	76	2,003

'' For Nov 30; Taiwan Weighted Price 6926.06; Korea Comp Ex 726.48. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, 951.30; HEX Gen., MIB Gen., BEL20, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 30 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ‡ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 4 - 2880.89 -19.87. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrials, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to offical recalculation.

US INDICES

Dow Jones	Dec 3	Dec 2	Nov 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6442.69	6521.70	6521.70	6547.79 (25/11)	5032.94 (10/1)	6547.79 (25/11/96)	41.22 (8/7/32)
Home Bonds	103.86	103.92	104.10	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2300.06	2293.59	2290.82	2300.06 (3/12)	1882.71 (18/1)	2300.06 (3/12/96)	13.23 (8/7/32)
Utilities	233.23	234.77	235.66	238.12 (25/11)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6577.23 (6553.01) Low 6422.94 (6438.34) (Theoretical)♣
Day's high 6554.50 (6523.57) Low 6438.22 (6473.25) (Actual)♣

Standard and Poors	Dec 3	Dec 2	Nov 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	748.28	756.56	757.02	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials♥	876.29	887.49	886.63	887.49 (2/12)	702.07 (15/1)	887.49 (2/12/96)	3.52 (30/6/32)
Financial	82.85	84.23	84.93	84.93 (29/11)	58.67 (10/1)	84.93 (29/11/96)	7.13 (4/8/74)
NYSE Comp.	394.85	398.14	398.43	398.86 (25/11)	321.41 (10/1)	398.86 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	592.16	592.93	591.48	614.89 (22/5)	525.60 (16/7)	614.89 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1300.37	1299.82	1292.61	1300.37 (3/12)	988.57 (15/1)	1300.37 (3/12/96)	54.87 (3/10/74)

■ RATIOS

	Nov 29	Nov 22	Nov 15	Year ago
Dow Jones Ind. Div. Yield	2.01	2.02	2.06	2.30
	Nov 27	Nov 20	Nov 13	Year ago
S & P Ind. Div. yield	1.81	1.84	1.87	2.00
S & P Ind. P/E ratio	23.30	22.99	22.64	18.64

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Micron Tech	8,491,500	34¼	-1½
Vodafone	6,612,400	41⅝	-1½
Amer Online	4,783,300	37½	-2⅜
Iomega	4,619,300	23⅜	-1⅛
Willis Corr	4,133,500	10⅝	....
IBM	3,946,400	163⅛	-⅛
Silicon Gr	3,786,300	23⅝	+3⅜
Pepsico	3,491,900	29⅜	+⅛
Gulf Can Rs	3,402,500	6½	....
Telefonos	3,165,100	31⅛	+⅞

■ TRADING ACTIVITY

● Volume (million)	Dec 3	Dec 2	Nov 29
New York SE	519.946	415.665	151.372
Amex	24.631	24.182	11.022
NASDAQ	697.658	526.908	211.289
NYSE			
Issues Traded	3,325	3,313	3,129
Rises	1,304	1,279	1,309
Falls	1,195	1,207	911
Unchanged	826	827	909
New Highs	288	184	139
New Lows	25	28	11

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Dec	745.30	744.80	-0.70	747.70	743.50	92,727	177,313
Mar	754.00	751.60	-0.95	754.65	750.80	11,139	42,033
	Open	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
■ Nikkei 225							
Dec	20570.0	20650.0	-10.0	20670.0	20540.0	21,584	162,849
Mar	20610.0	20730.0	+30.0	20730.0	20580.0	15,761	135,349

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, December 4, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	4.5m	336	+2
Honda Motor	4.0m	3220	
Mitsubishi Hvy	3.5m	914	+4
Toshiba Cp	3.4m	726	+2
Nissan Motor	3.0m	790	+18
NEC Corp	2.8m	1360	+10
Hanwa	2.7m	352	-5
Toyota Motor	2.5m	3060	+50
Sumitomo Mtl Ind	2.5m	303	+2
Hitachi	2.4m	1070	+30

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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4 pm close December 4

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
31¼	17¾	AAR	0.48	1.6	27	222	30⅛	29¾	29¾	-⅜
46¼	33	AMP	1.00	2.6	18	6255	38½	37⅞	38	+⅛
97½	68	AMR			18	4852	92	90⅛	92	+1
39½	36⅞	ASA	1.40	3.7	24	902	37⅝	37¼	37⅞	+⅛
57⅞	38½	AbbtL	0.96	1.8	22	17668	54⅛	52⅝	53¼	-1⅛
17¼	12¼	AbitibiPr x	0.40	2.7	7	140	14¾	14⅝	14⅝	-⅛
20¼	13½	ABM Ind	0.35	2.1	17	75	17	16⅞	16⅞	-⅛
22½	13⅞	Acptncels			10	234	20¾	20½	20½	-⅛
60	37¼	ACE Ltd	0.56	0.9	14	2453	u60	59⅜	59½	-¼
10⅜	9⅛	ACM Gvt In	0.86	8.4	8	443	10¼	10⅛	10¼	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	7.9		386	7¼	7⅛	7¼	-⅛
9⅞	8⅝	ACM Man x	0.90	9.2		253	9¾	9⅝	9¾	
13⅞	6⅛	Acme Elect	0.32	4.6	53	210	7¼	7	7	-⅛
21⅝	13⅞	Acme Mills			15	180	u21⅝	21⅜	21½	+¼
33¾	27¾	Acordia x	0.80	2.7	14	27	29⅝	29⅜	29½	
24¾	12	Acuson			111	646	24	23⅞	23⅞	-⅞
21⅛	17⅞	Adams Exp x	0.55	2.8	1	306	19⅞	19¾	19¾	-⅛
25¾	10¼	AdvMic			25	9609	24¾	23⅞	24¼	+⅛
11⅛	8½	Advest Grp	0.16	1.5	7	140	10⅜	10¼	10⅜	
26⅛	9⅛	Aeq Inc	0.10	0.8	95	181	12⅞	12¼	12⅞	+⅛
58⅝	41⅛	Aegon	1.45	2.6	17	116	55¾	55⅜	55½	-½
8¼	3½	Aerflx			3	335	4⅝	4⅝	4⅝	
72⅞	57⅞	Aetna	0.80	1.1	9	4593	72⅞	71⅞	72¼	+¼
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NYSE PRICES

4 pm close December 4

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close December 4

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

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AMEX PRICES

4 pm close December 4

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Dow slips further at midsession

AMERICAS

US shares yesterday continued the weakness seen late in Tuesday's session as bonds slipped and investors continued to take some profits as the end of the year approaches, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was off 20.49 at 6,422.20, the Standard & Poor's 500 slipped 1.62 at 743.66 and the American Stock Exchange composite lost 3.46 at 588.72. NYSE volume was 270m shares.

Technology shares also weakened yesterday with the Nasdaq composite falling just below the 1,300 mark with a loss of 0.95 at 1,299.42. The Pacific Stock Exchange slipped by 0.1 per cent.

One negative factor for the market came from strategists at Salomon Brothers, who lowered the equity portion of their model portfolio to 45 per cent from 50 per cent and raised the cash holdings to 20 per cent from 15 per cent.

The bond portion was unchanged at 35 per cent.

Technology shares were mixed with three of the four largest companies on the Nasdaq posting losses. Microsoft fell $1 1/16 at $154, Cisco Systems shed $1¼ at $64¼ and Oracle was $1⅞ weaker at $47⅞. Intel, which is the largest company on the Nasdaq, rose $2¼ at $128¼. Other rising technology shares included US Robotics, up $2¼ at $76¼ and America Online, which rose $2¼ to $39¼.

Continental Airlines added $1⅞ or 7 per cent to $30¼ on reports that the carrier was in talks to be acquired by Delta Air Lines. Shares in Delta added $⅝ to $75⅝.

Bristol Myers Squibb shed $1⅞ at $113⅛ even though the company announced late on Tuesday that it planned to split its stock and raise its dividend by a cent a share.

TORONTO continued to move lower during a hectic morning session in spite of an impressive rally for gold stocks. The 300 composite index was down 21.64 at 5,919.09 by noon.

The index was pushed lower by steep falls among communication and transport shares. Aided by a modestly healthier bullion price, the golds index staged a 2.3 per cent recovery.

SAO PAULO showed little change at midsession with the Bovespa up a modest 69 at 68,437. After Tuesday's sharp rise for equities, sentiment was reined in by the news of a delay to the flotation of Companhia Vale do Rio Doce, the state mining group. The privatisation of Vale was scheduled for early February with between 40 and 45 per cent of the group due to be floated. A minimum price for the shares was to have been set by the middle of this month.

MEXICO CITY turned back, deciding to overlook larger than expected falls in primary interest rates at Tuesday's Cetes auction, which had encouraged some early bargain hunting by local and foreign investors. But by midsession, the IPC index was 10.78 weaker at 3,385.66.

Paris sell-off after Thomson veto

EUROPE

News that the Lagardère takeover of the Thomson group had been vetoed sent PARIS juddering lower, pushing the CAC 40 index down by 40.46 or 1.7 per cent to 2,306.65.

It was a blanket sell-off, with Eurotunnel the only stock to make headway within the lead index. Lagardère, down almost 10 per cent at one stage, ended FFr11 or 7 per cent lower at FFr145.

Thomson CSF, the separately listed Thomson defence arm, fell FFr5.60 to FFr160.50 and Alcatel Alsthom, which had vied with Lagardère for the right to bid for Thomson, came off FFr15.10 to FFr460.

Doubts about the takeover had been creeping into analysts' thinking for some time. Even so, combined with a steep overnight fall on Wall Street and a further setback for US equities during late trading in France, it was a black day for sentiment.

A denial from Schering, the German chemicals group, that it was in talks with Rhône Poulenc failed to assist the latter which sank FFr5.90 to FFr167. Pernod Ricard came off FFr15 to Fr2,050 following the purchase of Two Dogs, the Australian alcopops producer.

The upside was represented by Eurotunnel which added 25 centimes to FFr7.20 as Channel tunnel trains resumed service. Among second liners, Usinor Sacilor improved FFr2 to FFr82.80 on hopes that it could enter the CAC 40 as a replacement for UAP.

AMSTERDAM fell back in line with leading bourses, with the AEX index closing off 5.56 at 630.81.

Hoogovens and Akzo Nobel stood out against the downturn, with the former's alliance with the UGB steel group of Belgium helping to lift the shares by Fl 2.40 or more than 3 per cent to Fl 69.70.

Hoogovens was also upgraded from hold to buy by Salomon Brothers. A positive analysts meeting at Akzo sparked an upgrade from Merrill Lynch. The shares added Fl 1.50 to Fl 233.50. DSM gained 50 cents to Fl 169 in sympathy.

Gist Brocades, the biotechnology group, was the day's biggest casualty, sliding Fl 1.70 or 3.2 per cent to Fl 51.20.

FRANKFURT followed Wall Street and its domestic bond market lower, but it ended well off the bottom with the Dax index down 19.87 at an Ibis-indicated 2,880.89, after a low of 2,857.88, as turnover fell from DM11.8bn to DM9.8bn.

Bunds came under pressure after stronger than expected October manufacturing orders. The dollar recovered after a dip in New York trading data. However, the downswing caught both defensive stocks and cyclicals, the latter particularly vulnerable in the chemicals sector after its gains in recent days.

BASF and Bayer, up by 5 per cent or more on Tuesday, shed 1.6 and 2.5 per cent respectively, coming in 98 pfg lower at DM59.90, and DM1.66 off at DM63.89. But the sector had a star in Schering which, while it rejected rumours that it planned to merge with Rhône-Poulenc of France, saw a big buy order and rose DM3 or 2.3 per cent to DM133.

ZURICH turned back as Wall Street provoked second thoughts, and the SMI index gave back 13.9 at 3,910.6.

UBS, an underperformer during the previous two sessions, stood out with a SFr13 rise to SFr1,212. CS Holding moved in the opposite direction, down SFr1.75 at SFr136.50 as an extraordinary general meeting approved its restructuring proposals.

Surveillance profited from the firming dollar, adding SFr15 at SFr3,085.

Among second tier shares, Elma Electronics, a former Sulzer business, jumped to SFr295 as the shares made their debut, compared with the IPO price of SFr275.

MILAN finished weak after a day of largely speculative trade, and the Comit index lost 3.75 at 657.05.

Shares in Pirelli & Cie, the holding company, jumped L45 to L1,907 as Italian newspapers played up talk of a group restructuring after a company meeting with analysts on Tuesday. By contrast, Pirelli Spa, the main operating company within the group, with tyres and cables businesses, gave up L15 to L2,839 as Pirelli denied the press reports.

Analysts noted that the holding company's shares had been out of favour for much of the year, falling to a year's low of L1,556 in October from a high of L2,370 in February.

Olivetti fell L18.9 to L511.6 as lawyers for the former chairman, Mr Carlo De Benedetti, who was questioned by Turin judges investigating alleged irregular sales of Olivetti shares in late August, insisted that any allegations of insider trading were totally unsustainable.

A L71 jump to L4,430 in Fiat was attributed to renewed talk of possible government incentives to boost the ailing car industry.

Among insurers, Generali lost L598 to L80,166 on renewed speculation of a possible acquisition of SAI, up L568 at L13,758.

OSLO, where the total index fell 6.51 to 942.71, blamed most of its decline on Saga Petroleum, which fell NKr5 to NKr100.50 on the news that it was paying Kuwait Petroleum $1.28bn for Santa Fe Exploration, an oil company with interests in the British North Sea fields.

Saga said that it had taken a sophisticated approach to the deal, with elaborate research to take into account Norwegian tax advantages, and the prospect of raising production.

BUDAPEST bucked the bearish European trend and rose to a second successive record high. The Bux index closed 28.23 higher at 3,789.22 in strong turnover of Ft2.24bn.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Dec 4 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1895.38	1892.18	1891.75	1891.15	1890.76	1890.87	1892.01	1890.66
FTSE Eurotrack 200	1929.28	1930.49	1930.13	1928.53	1928.03	1923.17	1924.98	1925.28

	Dec 3	Dec 2	Nov 29	Nov 28	Nov 27
FTSE Eurotrack 100	1899.49	1877.88	1887.70	1850.81	1843.94
FTSE Eurotrack 200	1940.43	1923.75	1920.27	1907.35	1900.73

Base value 1000 (26/10/90). Highday: 100 - 1895.38; 200 - 1935.84 Lowday: 100 - 1889.43 200 - 1923.01 † Partial

Bounce in bullion helps S Africa

A scramble by investors back into gold shares allowed the overall index in Johannesburg to move higher in spite of another depressing session for industrial stocks.

Gold shares bounced strongly on the recovery for the bullion price.

The index gained 24.1 to 1,516.5 and offset a 23.1 decline to 7,968.6 for industrials. As a result, the overall index rose 14.1 to 6,718.6.

Dealers said that the move back into gold shares after the recent sell-off came close to a stampede. Vaal Reefs jumped R9.25 to R329 and Loraine 50 cents to R14.50.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: November 29 1996	Dollar terms: % Change over week	Dollar terms: % Change on Dec '95	Local currency terms: November 29 1996	Local currency terms: % Change over week	Local currency terms: % Change on Dec '95
Latin America	(249)	525.12	−0.5	+11.5			
Argentina	(31)	909.46	+0.9	+13.5	557,799.56	+0.9	+13.5
Brazil	(68)	374.88	0.0	+22.8	1,448.70	+0.2	+30.5
Chile	(45)	653.16	−2.8	−12.7	1,101.54	−2.7	−9.7
Colombia	(14)	641.61	+1.4	+7.3	1,129.96	+1.4	+7.7
Mexico	(64)	515.94	−0.3	+13.8	1,755.78	0.0	+16.6
Peru	(19)	196.92	−0.7	−0.2	311.72	−0.2	+12.0
Venezuela	(8)	691.58	−1.0	+106.8	7,514.23	−0.7	+187.9
Asia	(712)	254.55	−0.6	+9.6			
China	(27)	64.02	+4.8	+18.3	67.09	+4.8	+18.1
South Korea	(157)	88.13	−1.2	−30.0	96.03	−0.8	−26.2
Philippines	(42)	289.87	−0.2	+11.7	388.07	−0.2	+11.9
Taiwan, China	(90)	151.05	+0.9	+34.0	155.89	+0.8	+34.9
India	(79)	74.44	−2.7	−7.4	94.42	−2.6	−6.9
Indonesia	(49)	124.93	−1.2	+13.9	159.14	−1.2	+16.8
Malaysia	(148)	335.54	+0.1	+23.7	313.09	+0.5	+23.2
Pakistan	(28)	223.77	+2.5	−7.81	408.78	+2.5	+8.4
Sri Lanka	(5)	101.82	−0.8	−2.2	125.81	−0.8	+4.1
Thailand	(67)	264.02	−6.1	−32.4	257.82	−5.6	−31.5
Euro/Mid East	(264)	135.46	+0.4	−4.3			
Czech Rep	(7)	64.37	−1.6	+7.3	67.96	+0.2	+6.9
Greece	(54)	241.23	−1.4	−0.1	395.24	+0.7	+2.1
Hungary	(12)	178.84	0.0	+81.7	341.08	+2.0	+110.8
Jordan	(7)	183.27	+2.0	−0.8	273.81	+2.0	−0.7
Poland	(30)	709.46	0.0	+66.4	1,273.53	+1.4	+92.4
Portugal	(20)	140.06	−2.1	+21.0	149.41	+0.1	+4.9
South Africa	(63)	214.14	+0.5	−17.0	203.76	+0.5	−17.0
Turkey	(55)	151.75	+3.3	+46.2	7,300.70	+5.5	+144.2
Zimbabwe	(5)	439.59	+0.4	+60.0	697.00	+0.7	+64.5
Composite	(1225)	294.16	−0.3	+6.7			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10 Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1988, (15)Aug 2 1993; (16) July 2 1993.

Bombay has struck a three year low with sentiment bruised by a mounting toll of negative factors, *writes Tony Tassell.*

The BSE 30 index fell 84 points to a low of 2,713.12 yesterday, before recovering to close 1.9 per cent down on the day at 2,749.41. The fall extends a sharp retreat after a frenetic pre-election rally in the first-half of the year. The index peaked at a 52-week high of 4,131 in mid-June after a January low of 2820.

In the last fortnight, the indicator has fallen by 14 per cent and most analysts expect the slide to continue. The triggers for the most recent falls have been fears of an imminent rise in administered petroleum prices and the worst interim reporting season from blue chip companies for the last three to four years.

However, most analysts see the problems affecting the market as long term, structural and interlinked. Among the negative factors are: a slowing of economic reforms by the United Front coalition government, a dearth of retail demand, high interest rates, mixed economic conditions, a lack of trust in the majority of corporate managements, continued sales by domestic institutions, high government borrowings to fund a rising fiscal deficit, a continuing flow of new paper into the market, fears of a further slowdown in corporate earnings and political uncertainty.

Baring Securities (India), one of the most "bearish" brokers on the subcontinent, says that the country is facing an impending economic crisis led by a "ballooning" fiscal deficit and a shake-out in the business sector, driven by the side-effects of economic liberalisation. According to Barings, the market has sensed the impending danger in economic and corporate performance but has not sufficiently discounted it due to a lack of conclusive evidence. "Hence, it [the market] is still skidding and is in the process of forming a long-term bottom. We think the process will continue into the next quarter with unquantifiable damage to stock values in the process," it says.

Foreign exodus worries hurt Bangkok

ASIA PACIFIC

Fears of a major foreign exodus, as overseas funds led a wave of selling, left BANGKOK at a 40 month low.

The SET index fell below the key 900 resistance level, sliding 7.49 or 0.83 per cent to 896.32 and extending its losses over four days to 60 points.

According to traders, the positions built up by foreign funds ahead of last month's general election were being unwound rapidly.

"The worry that the government will fail on the economy is now deeply entrenched. The banks are having an especially tough time", said one broker.

Siam Commercial Bank lost Bt4 to Bt186 and Thai Farmers shed Bt3 to Bt135. Siam Cement came off Bt12 to Bt832.

TOKYO broke out of a five-day losing streak, but only barely so, with investors initially discouraged by the overnight fall on Wall Street, *writes Gwen Robinson.*

The Nikkei 225 average closed 29.35 higher at 20,659.91 after trading between 20,524.96 and 20,677.08, as profit taking in recent big winners gave way to bargain-hunting by pension funds, and renewed purchases of blue chips such as Sony and TDK by foreign investors. Traders noted a growing view among investors that stock prices were bottoming out.

Volume rose slightly, from 269m shares to an estimated 277m. Declines led advances by 638 to 422, with 183 unchanged.

The Topix index of all first-section stocks edged up 0.72 to 1,536.36 and the capital-weighted Nikkei 300 by 0.45 to 290.09.

In London, the ISE/Nikkei 50 index rose 0.40 to 1458.65.

Sony, subject to profit-taking in recent sessions, hit a new high for the year, climbing Y160 to Y7,480. Among other blue chips, Fuji Photo Film continued to advance, adding Y40 to Y3,570, Canon rose Y70 to Y2,480 and Toyota Motor Y50 to Y3,060.

Nissan, which had trailed other carmakers recently, rose Y18 to Y790 while Honda remained unchanged at Y3,220 after profit-taking this week curbed its recent climb.

In property stocks, Mitsubishi Estate fell Y30 to Y1,350 following Wednesday's move by Moody's, the credit rating agency, to downgrade its senior secured and unsecured long-term debt.

In Osaka, the OSE average fell 45.32 to 20,896.94 and volume dwindled to 16.9m shares.

SEOUL posted a 37 month low on rumours, denied by the company, that Sammi Steel faced financial difficulties. The composite index finished 9.72 down at 715.87 and Sammi lost Won270 at Won3,140.

Analysts said that the market was also unsettled by opposition from labour groups to a government plan to revise labour laws and improve industrial competitiveness.

HONG KONG put in a cautious performance although bargain hunting among recent underperformers enabled prices to finish off their lows. The Hang Seng index finished 22.02 lower at 13,434.24, up from an intraday 13,344.80, in turnover that picked up to a busy HK$8.6bn. H shares remained in demand, taking the index up 1.1 per cent to 843.96.

SHANGHAI hard currency shares, up 11.6 per cent on Tuesday, added another 4 per cent in volume of 69.3m shares, the second highest on record. The B index rose 2.494 to 65.133. The local currency A index rose 4.2 per cent.

MANILA reversed early losses to end with the composite index 29.51 higher at 3,130.87. Philippine Long Distance Telephone shed 20 pesos to 1,515 pesos but there was good support for most leading shares.

WELLINGTON closed higher with paper stocks firmly in favour. The 40 capital index added 12.37 to 2,391.28. Carter Holt Harvey rose 18 cents to NZ$3.50 on volume of 12.6m shares and Fletcher Challenge Paper rose 9 cents to NZ$2.76.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 3 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 2 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	218.93	−2.5	196.47	157.39	178.29	182.52	−0.1	4.16	224.61	197.67	161.55	180.11	182.63	224.61	184.92	184.92
Austria (24)	183.80	−1.3	164.95	132.14	149.69	149.60	0.2	1.91	186.23	163.89	133.94	149.33	149.25	195.04	168.36	172.66
Belgium (27)	224.04	−0.6	201.05	161.06	182.46	178.36	0.6	3.74	225.86	198.77	162.44	181.11	177.24	229.11	190.89	190.89
Brazil (28)	184.04	1.2	165.16	132.31	149.89	349.61	1.2	1.75	181.76	159.96	130.74	145.77	345.55	189.70	131.21	141.56
Canada (116)	193.49	−0.4	173.64	139.10	157.58	186.98	−0.7	1.91	194.31	171.01	139.75	155.82	190.33	196.24	144.35	146.66
Denmark (30)	334.29	−1.2	300.00	240.32	272.25	272.58	0.3	1.69	338.21	297.65	243.26	271.20	271.68	340.41	261.10	283.63
Finland (24)	238.74	0.4	214.24	171.63	194.43	234.16	1.5	2.14	237.72	209.21	170.97	190.62	230.72	240.65	171.73	221.09
France (93)	212.49	0.1	190.69	152.76	173.06	176.47	1.2	2.77	212.33	186.86	152.71	170.26	174.33	212.49	167.70	172.16
Germany (59)	186.93	−0.5	167.66	134.31	152.15	152.15	1.1	1.59	187.76	165.24	135.04	150.56	150.56	189.39	161.03	161.03
Hong Kong (59)	511.20	−0.2	458.75	367.50	416.32	507.49	−0.2	3.05	512.27	450.83	368.44	410.78	508.53	513.27	372.66	377.90
Indonesia (27)	222.02	0.9	199.24	159.61	180.81	319.53	0.9	1.82	220.03	193.64	158.25	176.43	318.52	–	–	–
Ireland (16)	315.09	−1.9	282.76	226.52	256.61	269.00	0.1	3.40	321.07	282.56	230.92	257.46	268.82	321.14	250.17	252.65
Italy (58)	81.72	−0.4	73.34	58.75	66.55	93.88	1.1	2.21	82.03	72.19	59.00	65.78	92.88	84.53	67.22	68.11
Japan (480)	137.06	−0.3	123.02	98.55	111.64	98.55	−0.4	0.78	137.55	121.05	98.93	110.30	98.93	164.66	137.06	148.61
Malaysia (107)	595.73	−0.2	534.61	428.27	485.16	579.66	−0.2	1.07	596.88	525.29	429.29	478.62	580.70	607.65	475.01	475.01
Mexico (27)	1228.02	2.7	1102.03	882.82	1000.10	10576.06	2.5	1.04	1195.33	1051.96	859.70	958.50	10316.75	1325.65	936.49	1017.12
Netherland (19)	323.71	−0.1	290.50	232.71	263.63	258.69	1.4	2.85	324.16	285.28	233.14	259.94	256.08	328.12	263.44	263.44
New Zealand (18)	92.79	−0.2	83.27	66.71	75.57	69.88	0.4	3.96	92.96	81.83	66.88	74.56	69.37	94.35	73.94	78.67
Norway (35)	283.89	−0.5	254.77	204.09	231.20	251.32	1.0	2.01	285.26	251.05	205.16	228.74	248.65	285.26	222.24	226.56
Philippines (22)	199.58	0.5	179.10	143.47	162.53	261.53	0.5	0.61	198.61	174.79	142.84	159.26	260.16	–	–	–
Singapore (43)	414.09	−0.8	371.61	297.69	337.24	287.83	−0.8	1.01	417.29	367.24	300.12	334.62	289.51	465.21	371.28	379.91
South Africa (44)	324.06	−0.1	290.81	232.96	263.91	329.81	0.2	2.37	324.48	285.56	233.37	260.19	329.11	437.78	314.20	368.93
Spain (37)	200.37	0.1	179.82	144.05	163.19	200.09	1.6	2.99	200.14	176.14	143.95	160.49	197.00	200.37	157.91	158.69
Sweden (48)	415.23	0.5	372.63	298.51	338.17	418.50	1.8	2.04	413.13	363.58	297.13	331.27	411.20	416.67	294.19	319.67
Switzerland (37)	240.01	−0.2	215.39	172.54	195.47	198.16	1.2	1.50	240.47	211.62	172.95	192.82	195.85	254.34	219.20	227.16
Thailand (45)	110.44	−2.6	99.11	79.39	89.94	109.56	−2.5	3.13	113.37	99.77	81.54	90.91	112.40	193.95	110.44	158.95
United Kingdom (213)	269.52	−1.4	241.67	193.76	219.49	241.87	0.5	3.94	273.39	240.59	196.61	219.20	240.58	273.93	222.43	228.42
USA (623)	304.70	−1.0	273.44	219.05	248.14	304.70	−1.0	1.97	307.82	270.90	221.39	246.83	307.82	307.82	243.34	248.27
Americas (794)	278.61	−0.9	250.21	200.44	227.07	334.42	−0.9	1.95	281.44	247.68	202.42	225.68	298.67	281.50	222.63	226.33
Europe (720)	232.24	−0.7	208.41	166.96	189.14	202.19	0.9	2.87	233.76	205.72	168.12	187.45	200.25	234.66	194.31	196.02
Nordic (137)	353.67	0.1	317.39	254.26	288.03	312.36	1.4	2.00	353.16	310.60	254.00	283.19	307.94	355.21	261.13	284.90
Pacific Basin (876)	155.53	−0.5	139.58	111.81	126.67	112.82	−0.3	1.25	156.26	137.52	112.38	125.30	113.20	177.01	153.96	159.66
Euro-Pacific (1596)	187.39	−0.6	168.17	134.71	152.61	145.61	0.3	2.09	188.45	165.85	135.53	151.11	146.02	191.51	174.72	174.72
North America (739)	298.07	−1.0	267.49	214.28	242.75	297.12	−1.0	1.86	301.04	264.93	216.51	241.39	300.12	301.15	237.56	241.90
Europe Ex. UK (507)	207.30	−0.2	186.03	149.03	168.82	177.51	1.2	2.25	207.72	182.81	149.40	166.57	175.41	209.70	174.81	175.44
Pacific Ex. Japan (396)	314.82	−0.9	282.34	226.18	256.23	271.19	−0.2	2.74	317.34	279.28	228.23	254.46	271.67	317.82	256.53	256.53
World Ex. US (1811)	189.65	−0.5	170.19	136.34	154.45	151.90	0.3	2.08	190.62	167.76	137.10	152.86	151.44	193.47	175.70	175.70
World Ex. UK (2221)	221.70	−0.7	198.95	159.38	180.55	191.10	−0.4	1.82	223.17	196.41	160.51	178.96	191.81	224.89	185.17	195.17
World Ex. Japan (1954)	272.37	−0.8	244.42	195.81	221.82	257.62	−0.3	2.32	274.64	241.70	197.52	220.22	258.28	274.88	224.82	225.07
The World Index (2434)	225.80	−0.7	202.64	162.33	183.89	195.79	−0.3	2.03	227.48	200.19	163.60	182.41	196.34	226.67	197.91	197.91

CONSTITUENT CHANGE WITH EFFECT 5/12/96: Deletion: Publishing and Broadcasting (Pref) (Australia). Latest prices were unavailable for this edition.

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MP seeks 'amends for what was done in the emperor's name' to prisoners

Minister urges Japan war payout

By George Parker,
Political Correspondent

Japanese companies should consider compensating former British servicemen for the hardship they suffered during the second world war, Mr Jeremy Hanley, a Foreign Office minister, told the House of Commons yesterday.

He was speaking at the end of a debate in which MPs from all parties urged Japan to offer cash to servicemen who suffered as prisoners-of-war. Referring to the question of compensation, Mr Hanley said: "I would willingly encourage any new initiative to encourage Japanese companies to help in this way."

Mr Hanley's comments drew a frosty response from the Japanese embassy, which said that in August last year prime minister Mr Tomiichi Murayama had expressed a "heartfelt apology" over Japan's role in the war.

Japanese companies, many of which have established factories in the UK, were also unenthusiastic about Mr Hanley's suggestion. Nissan GB, which has a car factory in Sunderland, said: "We don't think this is a company matter – it is something between the Japanese and British governments."

A bid led by Sir Kit McMahon – the former deputy governor of the Bank of England, the UK central bank – to set up a charitable foundation to benefit veterans, collapsed in 1994 because Japanese companies and individuals were reluctant to contribute.

The Foreign Office later denied that Mr Hanley's comments represented a "gaffe". "Our position is that if any company – whether Japanese or British – wants to help the former prisoners-of-war, we would welcome that," the Foreign Office said.

Mr Douglas Hurd, the former foreign secretary, led the calls for Japan to compensate former prisoners of war, many of whom were watching from the public gallery. "As a strong friend and supporter of modern Japan, I believe the search – and it now is an urgent search – for a way for more substantial action needs to continue," he said.

Mr Denis MacShane, the Labour MP who opened the debate, warned: "This issue will not go away until Japan accepts its full responsibilities and makes full amends for what for what was done in the emperor's name 50 years ago."

Mr MacShane said it was 55 years ago next weekend that Japan "plunged the Pacific into a terrible war".

Japan has refused to pay compensation to British ex-prisoners, and many veterans remain angry at what they see as a refusal by Japan to apologise for their treatment during the war.

Honda announced yesterday that the labour force at its factory in south-west England was to increase by 250 from the present 2,300. The company is preparing for increased car output at the factory from next April, John Griffiths writes. Output there is intended to rise from 100,000 cars a year to 150,000 by the end of 1998, when a third model will have joined the Civics and Accords now produced. Meanwhile, the Rover offshoot of BMW said it was to recruit a further 100 specialist engineers to develop an expanded range of four-wheel-drive vehicles. The recruits will be based at Rover's new £25m ($42m) design centre in the English Midlands and will bring to 500 the number of additional engineers Rover has hired since March last year.

Gilt repo proposals welcomed in City

By Richard Adams
in London

The Bank of England's proposals to introduce a daily gilt repo market were welcomed yesterday by the City of London institutions most affected by the change – discount houses and gilt-edged marketmakers (Gemms).

The changes would end a relationship unique to the UK financial market between the UK central bank and the discount houses.

Under the bank's proposals, any approved institution can sell Treasury or commercial bills to the bank in its daily money market operations. In addition, using the gilt repo, institutions will also be able to lend UK government bonds for short periods.

Mr George Blunden, chief executive of Union discount house, said the bank's proposals had been expected by the industry since the introduction of bi-monthly open market repos in 1994.

The discount houses have anticipated the introduction of a daily repo by embracing the existing repo operations. Mr Kevin Adams, a bond market strategist at BZW, said that repo operations were already the biggest activity for the discount houses.

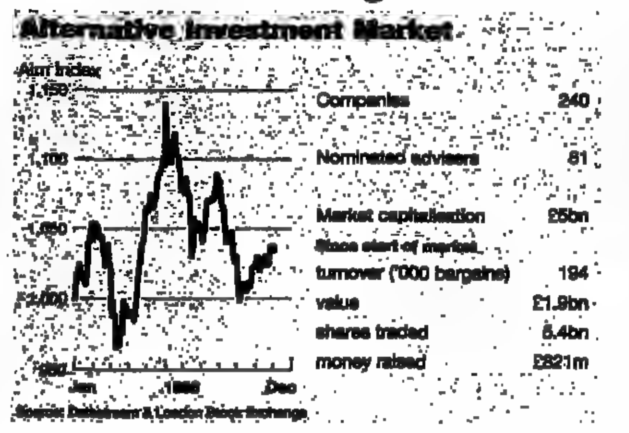
The combined balances of the houses for September showed that of a total of £27bn ($45bn), £16bn was already invested in the repo market.

Mr Ross Jones, executive director of Gerrard and National, one of the seven discount houses currently operating, said: "The inefficiencies of the past system were highlighted in the late 1980s and early 1990s, when the clearing banks became the dominant forces in the market place."

The Bank of England said there are currently £250bn of gilts outstanding that could be available for repo lending, as opposed to around £20bn of eligible bills in the market.

Tighter rules for junior listings

By Christopher Price
in London



Rules governing the Alternative Investment Market are to be tightened in the first significant move by the London Stock Exchange to strengthen the junior market's regulations since trading began 18 months ago.

Some big investors are concerned about the quality and price of a minority of new Aim issues, although the exchange denied that this was the reason behind the move.

The rule changes include:

● All Aim applicants must make an official announcement two weeks before the date on which they wish to join the market. At the moment, potential new entrants inform the Aim authorities privately of their intentions three days in advance. They must now include details of the business, directors, big shareholders, any funds to be raised, promoters and the nominated advisers and brokers.

● Aim companies will also be expected to declare any shareholder with more than a 3 per cent holding, as is the case with companies on the main list. At the moment, notification has to be made on Aim only for shareholdings of more than 10 per cent.

● A more rigorous interpretation of potential entrants' working capital requirements. This rule is designed to give investors a better guide to the level of funding a company has in place and the position after any fund-raising.

● A more prominent health warning on company's admission documents

This spells out in greater detail the greater risks associated with investing in Aim companies, many of which have only a limited trading record and can experience only light share trading.

● Finally, details of disciplinary measures against errant "nominated advisers" are to be included in Aim admission documents for the first time.

The exchange said this would underline its determination to take action where necessary.

Mr Richard Kilsby, the director of market regulations for the stock exchange, said: "These modifications are part of the normal development of the market and will provide participants with greater access to information."

Aim has enjoyed considerable success since its launch, with 240 companies joining and capitalised at more than £5bn ($8.3bn). However, several profits warnings, two delistings and some poor price performances have recently underscored concerns over the quality of some companies.

The stock exchange said a separate review of the nominated advisers was expected to be completed by the end of the year and could lead to action being taken against up to five of the 64 advisers.

Mr Andrew Buchanan of Rutherford Asset Management, an Aim fund manager, said the the rule changes would give investors more time in which to examine potential entrants.

However, Mr Andrew Beeson, of stockbroker Beeson Gregory, warned that too many new rules would spoil the character of Aim. "Fiddling around too much will lead to higher costs and ruin the unique characteristics of the market," he said.

N Ireland aid plea goes to EU

By John Kampfner,
Chief Political Correspondent

The UK government urged the European Commission yesterday to prolong aid to Northern Ireland amid concern that part of structural funds for the region might not be renewed because of the absence of a ceasefire by the Irish Republican Army.

Mr Michael Ancram, a minister in the government's Northern Ireland office, held talks with Ms Monika Wulf-Mathies, the European Union's regional commissioner, as he began a visit to Brussels, Bonn and Frankfurt.

Speaking to the Institut Royal des Relations Internationales, Mr Ancram also said Britain remained committed to multi-party talks on the future of Northern Ireland. The present participants represented 85 per cent of the population.

Blame for the resumption of violence in February lay firmly with republicans, he added. "In one fell swoop the IRA decided to take away, unilaterally and without remorse, the hopes and aspirations of a generation."

He denied that the government's clarification last week of its terms for a renewed IRA ceasefire was a change in position. The UK wanted to ensure the EU "remains both a very active and committed supporter of the way ahead in Northern Ireland".

He expressed appreciation for the £1bn in structural funds earmarked for the region from EU regional aid in 1994-99 and the £250m for Northern Ireland and the counties of the Republic of Ireland bordering it, under a peace and reconciliation programme.

The aid issue will be part of the European parliament's budget debate next week. In October, the budget committee recommended a cut in aid under the reconciliation programme for 1997, a decision described by Ms Wulf-Mathies as showing a "lack of solidarity". She urged parliament to reject the call at its plenary session but said it was for the British government to persuade member states to maintain the programmes' present levels.

● A £31.5m ($52.6m) investment in Northern Ireland by the Moy Park poultry processing offshoot of Chicago-based OSI Industries is expected to create 350 jobs, Sir Patrick Mayhew, Britain's chief Northern Ireland minister said yesterday. It was "a great vote of confidence in Northern Ireland", he added. Moy Park employs 2,900 people.

Mr David Trimble, leader of the Ulster Unionist party, said yesterday he did not believe any change of government in the UK would materially affect the Northern Ireland peace process, Patti Waldmeir writes in Washington. A degree of incompetence and naivete might be expected from new ministers, he said, but there was "a fair degree of incompetence and naivete in the current crowd". Mr Trimble, whose party is the biggest pro-British party in Northern Ireland, was speaking after a meeting at the White House with Vice President Al Gore. Polls in the UK point towards a victory for the opposition Labour party at the general election, expected next May. Mr Trimble praised President Bill Clinton's envoy to the talks, former Senate majority leader Mr George Mitchell, and said the US approach to the peace process was "sound".

Success of jobs recovery questioned

By Andrew Bolger,
Employment Correspondent

The UK's employment performance does not appear very impressive by international standards, in spite of significant improvements, says the journal of the Office for National Statistics.

It says employment fell in the first three years of recovery from the last recession, compared with the US and France where it rose and Australia, where it remained unchanged.

An article by Mr Julian Morgan of the National Institute of Economic and Social Research compares recoveries in the labour markets of the UK, US, Canada, Australia, Germany, France and Italy. He says: "Only in Canada and Germany was the employment performance clearly worse than in the UK."

Mr Morgan says UK unemployment has fallen much earlier in the 1990s recovery than it did in the 1980s and this has not been accompanied by an upsurge in pay. Wages have also grown slowly by international standards.

"This may be indicative of a rise in labour market flexibility in the UK but it may also be a consequence of the of the regional pattern of the latest upturn.

"The recent recession and recovery in the UK are far less regionally biased than in the 1980s. This is likely to have have helped constrain wage pressures."

Mr Morgan says the influence of trade unions was steadily eroded throughout the 1980s by government legislation. The drop in the proportion of the UK workforce in union membership was the biggest recorded among the seven countries. He adds. "In the 1980s, wage inequality increased more quickly in the UK than in any of the other countries in the sample."

● A bitter inter-union wrangle has broken out over allegedly racist recruitment procedures at the Ford factory at Dagenham in east London. Highly-paid truck drivers have voted unanimously to close their section of the giant Transport and General Workers' Union and have applied to join the smaller rival, the United Road Transport Union. The drivers are unhappy over the way in which the TGWU handled a tribunal case brought by seven black and Asian workers who said they had been refused transfers to jobs as truck drivers because the selection system was biased against them. Ford declined to comment.

UK NEWS DIGEST

Doubt cast over power reforms

Planned deregulation of the UK electricity market in 1998 has been thrown into doubt by a claim that Professor Stephen Littlechild, director general of Offer, the industry's regulator, was acting outside the law. Herbert Smith, a City of London law firm representing the 12 regional electricity supply companies in England and Wales and the two Scottish electricity companies, wrote to Prof Littlechild on November 19 alleging that a number of fundamental legal issues would not be resolved by changes Offer wants to make to the licences the companies hold.

The law firm said legislation would be needed to deal with the problems it has identified. To make competition in electricity supply for Britain's 23m households work, Offer has to rewrite the licences which empower electricity companies to operate. Changes to licences have to be agreed between Offer and the industry. Herbert Smith said there were two big flaws in the draft licences Offer has proposed. One concerned problems of recovering money from customers who changed electricity suppliers; the other Offer's failure to deal adequately with rights of entry to premises. *Simon Holberton*

NATIONAL WESTMINSTER

Staff to be shed at retail bank

National Westminster Bank is to cut at least 10,000 jobs in its retail banking division over the next four to five years as it closes 200 more branches and shifts processing operations into bigger regional centres. NatWest has already shed nearly 8,000 employees in the UK over the past two years, but the new measures will reduce the workforce in its retail bank by more than a quarter. The announcement of the job cuts comes just days after NatWest toyed with a diversification into selling stationery, an idea that appeared to raise questions about its commitment to traditional banking.

● Scottish Power is to shed 2,000 jobs – or almost half the workforce – of Southern Water, the utility it bought this year for £1.67bn ($2.78bn). While most of these jobs – about 1,300 – will be lost through the proposed sale of Southern's non-core companies, about 700 are to be cut from the core water operation. *George Graham*

Editorial Comment, Page 11; Lex, Page 18

SHARE TRADING

Crest problems delay strip plan

Problems over the development of the new Crest electronic share settlements system have led to further delays in plans to allow the interest payments on gilts – government bonds – to be traded separately from the principal. The Bank of England, the UK central bank, has announced that a new market in these "strippable" government bonds will not be introduced until after September 1997. The Bank had planned to allow the separate trading in the first quarter of next year. But the timetable has been pushed back to allow for upgrading of the Central Gilts Office electronic settlements system.

The CGO will use the same software as the Crest electronic share settlement system, which has been heavily criticised by dealers since it began to replace the Talisman paper-based system.

● Crest struck further problems on Tuesday when a fault led to delays in processing messages from its 243 users and the reconciliation of records. Delays in late October and November led to calls – which were rejected – for the transition from Talisman to be delayed. Crest, which is currently settling about 40 per cent of share transactions for the UK market, is scheduled to take over settlement for the entire market by April. *Richard Adams*

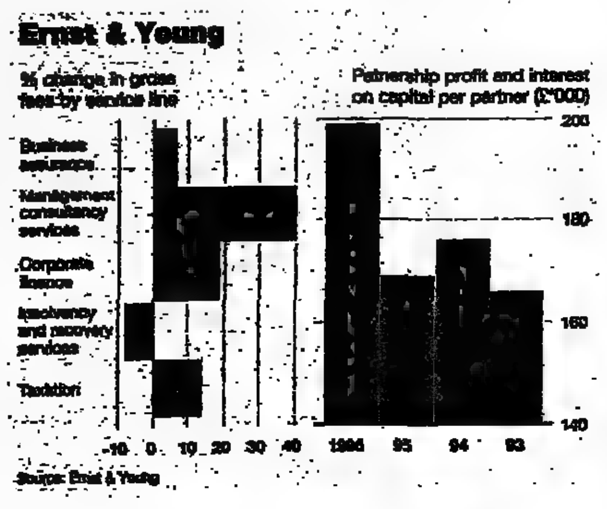
RAILWAYS

Bus group wins eastern routes

The FirstBus bus company yesterday won the franchise to operate the Great Eastern rail network for just over seven years with the promise of a "turn-up-and-go" service on London suburban routes where it competes with the state-owned Underground railway. Great Eastern routes run from London to the east coast of England north of the Thames estuary. Great Eastern is the 15th franchise to be awarded out of a total of 25 and means that 65 per cent of the national passenger rail network – in terms of ticket sales – is in the private sector. *Charles Batchelor*

Disclosure takes account of changes

Ernst & Young's publication of its results is part of a restructuring of the business



This week Ernst & Young became the second of the UK's "Big Six" accountancy firms to publish company-style results, and it felt like the shape of things to come.

It is worth considering why KPMG and Ernst & Young – and, from the middle-tier, BDO Stoy Hayward and Pannell Kerr Forster – have decided to disclose so much to their staff, clients, regulators and competitors. The partners, of course, always had the information – indeed E&Y's 400 partners receive a regular monthly update on the state of their business.

All the firms which have so far disclosed have been undergoing radical change. The process of disclosure is seen as part of a wider project to remake the business. Both KPMG and Ernst & Young are led by active and aggressive managers in the shape of Mr Colin Sharman and Mr Nick Land. At KPMG, the first of the Big Six to publish such results, disclosure has come alongside incorporation of the audit business and a tightening of the management control on what was a complex network of firms within a firm. At E&Y disclosure marks the emergence of a firm from the trauma of a messy merger which created it in 1989 from Arthur Young and Ernst & Whinney.

The firms which have disclosed, or plan to, have something to prove. E&Y's troubles after its merger fed the rumour mill and provided an easy target for competitors eager to nominate the firm mostly likely to fail – or more realistically – the firm most likely to be swamped by merger. E&Y's figures dispel many doubts, though they do show that the past was not so profitable. For example, in 1995 the average earnings of partners – the key indicator of the health of the firm – fell to £171,000 ($285,570) from £177,000 the year before, and was only fractionally above the £167,000 for 1993.

E&Y's capital base looks sturdy. Partnership capital is £71m and partners' current accounts stand at an additional £56m. The accounts are littered with examples of cautious management. There is a note which tells us computer equipment is depreciated over two to three years – laptops over two from July 1995 when they had previously been depreciated over three. Perhaps the bad years, post-merger, taught the firms' managers some hard lessons.

It is significant that both BDO Stoy Hayward and Pannell Kerr Forster are members of the troubled middle tier of accountancy firms. The sector considers these firms the most threatened in the hierarchy which stretches from the Big Six to local practitioners. They must find lucrative niche markets to survive.

PKF publishes tomorrow and there can be little doubt that Mr John Wosner, the managing partner, will have a robust story to tell.

Stoy Hayward's Mr Adrian Martin was able to reveal modest growth at 4.8 per cent in revenues, average partner earnings of £92,000, and equity partners' interests of £14.6m.

Most of the firms which have published have also chosen their moment to give them something to shout about – all have managed modest to good results. This year they will have shared in the upturn which gave E&Y's partners a 17 per cent increase – on the back of a 21 per cent increases in partnership profit.

What is immediately striking about E&Y and KPMG's results is how similar they are. This probably flows from the key role of partnership earnings in the financial structure of the firms. The challenge will be to discern the different business strategies of the big firms.

Eventually all the firms will probably have to disclose full results. The government has said it will require full disclosure of any firm taking advantage of its proposed new law establishing limited liability partnerships.

Even those firms determined to register offshore in the short term to get such protection will also have to disclose in the UK.

Jim Kelly

George Cole on how industry giants have agreed on a method of protecting copyright for digital video discs

Screenplay for CDs

Gadget-hungry Japanese consumers can put Digital Video Disc at the top of their Christmas lists. DVD, which plays movies stored on a compact disc, has finally arrived in Japanese shops.

Matsushita and Toshiba, two big Japanese consumer electronics group, launched the first DVD players in their home market at the start of November, and rival producers plan to unveil their models early next year.

The long-awaited launch of DVD not only heralds the arrival of a new consumer format that could boost the electronics industry's flagging sales, it also marks the end of months of heated talks between the computer, consumer electronics and entertainment industries. So much was at stake that the launch was delayed while the three camps haggled over copyright protection.

The groups have been negotiating over the development of a system that prevents movies on DVD being copied on to other digital formats or analogue VHS tape. Unauthorised copying is estimated to cost the movie and video industries hundreds of millions of pounds each year, and DVD threatened to make the situation even worse.

DVD not only offers much better picture quality than VHS video tapes, but it is also a digital system. Whenever an analogue recording is copied, the picture quality is reduced, but with digital systems each copy is a good as the original.

What is more, the movie industry is also keen to protect what Lewis Ostrover, vice-president of new media applications and operations at Warner Home Video, describes as "intelligent sequential distribution". This involves releasing blockbuster movies at staggered intervals around the world. Typically, a movie will be launched in the US first, appearing in other territories, such as Europe, months later.

For years, the movie industry has relied on the different and incompatible television systems used by Europe and the US to control this method of distribution – a VHS tape developed for the US market will not play in a European VHS recorder. But because DVD is a digital system like music CDs and CD-Roms, the discs could theoretically be bought and used anywhere.

DVD movie titles will use a system called regional coding, which divides the world into six territories. North America, for instance, is designated Region One; Europe, Japan and South Africa are Region Two, and so on. DVD movie discs will contain a code or flag which identifies the region they are designed for.

DVD players will be developed for specific regions and contain circuitry that recognises only discs designed for their region. As a result, someone buying a DVD disc in Paris, Texas, will find that it does not play in a machine in Paris, France.

Developing a regional coding system was not difficult, but producing an anti-copy system has not been so easy. The situation is complicated by the fact that DVD will also be used by the computer industry as a giant storage medium for data, games and multimedia programs. The new discs, DVD-Roms, are played in new drives that can also play DVD movie titles on a computer screen.

Illegal copying of software is rife in the PC world, but as Jan Oosterveld, president of Philips's key modules division, explains: "New [versions of] software programs are released every three to six months, but a movie may have a lifetime of more than 60 years." What is more, the personal computer industry has so far shown little desire to copy-protect DVD-Roms, and sees such systems as an additional cost on DVD-Rom drives.

The DVD consortium, which includes Sony, Philips, Toshiba and Matsushita, set up the Copy Protection Technical Working Group, with members from the computer, electronics, movie and music industries. In October, the working group unveiled its agreed anti-copy system. The system works by using complex mathematical codes or keys to scramble or encrypt the audio and video data on a DVD disc.

DVD uses keys that are up to 40 digital bits long. Although a 40-bit key offers strong protection, it will not prevent professional hackers from cracking the code: "The system won't stop professionals but it will stop the casual copier," says Ostrover.

The original plan was to encrypt all the audio and video material on a DVD disc, but those in the PC industry, including Intel, the chipmaker, and International Business Machines, noted that this would require lots of processing power to unscramble. So the revised encryption system scrambles about only half of the material, sufficient to make it unwatchable. DVD's encryption system is not mandatory. For example, someone making a video to be given away on a cover-mounted DVD disc may decide that it is not worth the expense of having the material protected.

But hardware companies wishing to make DVD players or DVD-Rom drives that can play encrypted movie titles will need to obtain a licence from a new, independent licensing body which will develop and distribute keys to hardware and software companies. The licensing body has not yet been appointed, and so Matsushita is distributing the encryption keys on behalf of the industry.

The DVD encryption process is complex. Each DVD movie title will have two unique keys known as the title key and disc key. These are used to encrypt the audio and video data, and also to ensure that only DVD players and drives with the correct descrambling circuitry can read DVD movie discs.

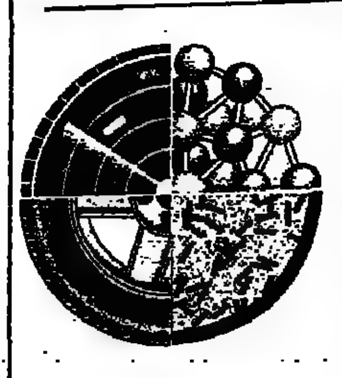
DVD-Rom drives will also contain an additional key which is checked by an authentication code on the disc. If the key is not present, the disc will not play.

Another system will be used to prevent consumers copying DVD video titles on to VHS tape. In order for DVD pictures to be watched on a television screen, the digital data is changed into an analogue video signal. DVD will use a system developed by Macrovision, a Californian company, to doctor the video signal. When the signal is copied on to video tape, the resulting pictures are jerky and suffer from colour disturbance.

But the proposed Macrovision system has not yet been tested on TV systems used in Europe, says Gerry Wirtz, general manager of Philips's copyright office. He adds: "It's not certain whether Macrovision can be used in some European countries, such as France and Germany, where consumers pay a levy that allows them to make private recordings." These issues will need resolving before DVD reaches Europe, probably next summer.

Wirtz says the copy protection agreement "now makes it possible to launch DVD on the market, but there are still some outstanding issues". These include developing specifications for a new "super audio" version of DVD – which will offer better sound quality than today's music CDs – and lobbying the US Congress to introduce laws that prevent anyone making, selling or using devices designed to circumvent DVD's anti-copy technology.

Worth Watching · Vanessa Houlder



Health workers at the sharp end

Any healthcare worker who is accidently injured by a used syringe may be at risk from diseases such as Aids or hepatitis.

New Medical Technology, a Scotland-based business, has designed a safety syringe with a retractable needle that could reduce the number of these needlestick injuries.

When the plunger has been pushed down to the bottom of the barrel, a mechanism is triggered that pulls the needle back into the middle of the barrel. As a result, there is no need to handle the needle during the syringe's disposal.

New Medical Technology: UK, (0)1698 842678; fax (0)1698 843789.

Coming through loud and clear

The frequently unintelligible announcements at railway stations could be improved using ISDN digital network technology, according to researchers in Germany.

The technical requirements of public address systems are complex partly because the voice signal being transmitted has a high bandwidth. This has been addressed in an ISDN-compatible communication system devised by Neumann Elektronik, a Mülheim-based company, and the Fraunhofer Institute for Microelectronic Circuits and Systems in Duisburg.

It uses an innovative encoding process that allows voice transmission up to a bandwidth of 7.5kHz, together with announcements made through loudspeakers via the telephone.

Fraunhofer Institute for Microelectronic Circuits and Systems: Germany, tel 2033780; fax 2033783266.

A share of mobile information

A mobile telephone service was launched this week that provides real-time data on share prices and foreign exchange rates anywhere within the GSM network. The user is alerted by an alarm when certain pre-selected shares move outside a certain range.

The service, set up by Martin Dawes Telecommunications, costs £49 a year plus value added tax and 80p a message.

Martin Dawes Telecommunications: UK, tel (0)1925 411661; fax (0)1925 258544.

Knitting in the fabric of life

A Scottish company has developed a new material for replacing diseased or damaged arteries. Made by Glasgow-based Vascutek, a subsidiary of Sulzer, the arteries are manufactured from knitted polyester coated with fine layers of a fluoropolymer.

The coating overcomes the risk of clotting, which until now prevented polyester from being used for blood vessels smaller than 6mm in diameter.

The new material is more flexible than the polytetrafluorethylene-based material now used. It also has a gelatin sealant that heals stitch-holes. The material, Fluoropassive, has won approval for use in the EU.

Vascutek: UK, tel (0)141 8125555; fax (0)141 8127170.

French company has a flutter

Company flags are meant to symbolise a company's identity, but they lose their impact in windless conditions. Airstar, a French business, has designed a system that makes flags flutter anywhere, including indoor exhibition halls.

The Newind system, designed by Airstar, is a transparent mast with a silent centrifugal fan built into its base, which blows air up the mast and releases it around the flag.

Airstar: France, tel 476637185; fax 476351577.

هكذا من الأصل

ARTS

Cinema/Nigel Andrews

The turkey season hots up

A smiling, fun-packed Arnold Schwarzenegger is a sure sign that Christmas is on the way. So is the festive disregard with which both his body and his accent are treated in *Jingle All the Way*, so that a gutteral Austrian Atlas can play a doting, "ordinary" all-American father.

No need to point out that the Arnold voice is bizarre, even among the supposed German-American peoples of Minnesota, where the film is set, or that the Arnold frame would terrify shoppers anywhere outside the Beverley Hills health belt. Since aesthetic conventions are as wilful and imperturbable in popular American cinema as in Kabuki theatre, who will press protests?

When I was in the US, the actor was on every talk show puffing "Chingle All Ze Vay" and presiding over clips. Essentially, every clip in this film is the same: anxious Dad scrambles through sea of shoppers to find vital Turbo Man doll, the only Christmas present that will satisfy his neglected brat of a son.

Occasionally we cut from the Turbo Man chase to Arnold's Christmassy house, where his sheeny-complexioned wife – let us call her Plastic Mom – bakes biscuits while fending off the sleazy neighbour with the sly, fixed-neck smile: let us call him Jackbenny Man.

This is an entertaining, loopy film peopled entirely by artefacts. I had better, like an MP, declare my interests. As an official Schwarzenegger fan I find this man so off-the-wall that he turns everything into a Dadaist event. But *Jingle* is more intriguing than the thick-eared *Eraser* or the pin-brained *Junior*, let alone the mind-pulping *Last Action Hero* from which it borrows (with more success) the climax in which illusion fuses with reality.

Like the left-for-dead shoppers in the store stampede scenes, the film's faint hints of a consumerist satire are soon trampled underfoot by the giant *idée fixe* of the Turbo Man. (Was the toy's name chosen so that Arnold could flex his most beloved vowel sound – "Toorbo Man"?) And it seems no more than reasonable wish-fulfilment that the seeker and his gift finally blend in an all-flying special effects epiphany that should please children everywhere.

★

Other films showcase other late-year family festivals. The only way the Thanksgiving reunion could be made worse for the characters in *Home For The Holidays*, a comedy directed by Jodie Foster, would be if they all had to sit down and watch a video of *Home For The Holidays*.

The script by W.D. Richter *(Slither, Nickelodeon)* might have been workable. Prodigal siblings Holly Hunter, an unmarried mother, and Robert Downey, gay, return to a household that contains one resentful stay-at-home sister, one mad aunt (Geraldine Chaplin) and two parents (Anne Bancroft, Charles Durning) who look as if they have fled a burning Norman Rockwell painting. Bancroft clucks, coos and frets in a disconcerting wig. Durning settles his vast bulk, now wider than it is high, into a role manifestly too small for America's almost-best character actor.

No one told actress-director Foster that the correct way to play a comedy teetering on the brink of farce is not to push it over. Instead we have wacky cutting, *outré* camera angles, overlapping dialogue and a general air of panic. According to the statistics-intensive press notes, 64 turkeys were used in filming the family dinner, which makes 65 in all.

Also arguing to be roasted this week is *The Day Of The Beast*. This is a Spanish black comedy by one Alex de la Iglesia: a name which translates as "the lawless one of the church". How apt, since the film's hero (Alex Angulo) is a priest who tries to save the world from the about-to-be-born Antichrist by doing as much evil as he can.

I could not work out the logic of this. But narrative sense doesn not seem to have mattered to homegrown Catholic audiences, where the movie doubtless owes its smash hit status to its "outrageous" anti-clericalism and its satire on the Book of Revelations. Neither of these comic attributes is likely to impress Britons, however, who are brought up from birth on that tender diet of respectful agnosticism known as the Church of England.

The Spanish film's special effects are cheap and appalling, while those in Ching Siu Tung's *A Chinese Ghost* Story, revived at the National Film Theatre, are cheap and thrilling. This 1987 Hong Kong fantasy-adventure shows what a dazzling movie culture once belonged to this soon-to-be-ex colony.

The plot is out of *A Touch Of Zen* by *Kwaidan*. A young stranger (Leslie Cheung) seeks a night's refuge in an abandoned fort, only to be visited by every ghost, grave-risen seductress and passing mythical swordsman in the province. Giant tongues issue from ogres' mouths. Robed warriors leap tree-high through crackling air. And supernatural Flight Control has its work cut out co-ordinating the ghosts constantly streaming through the ether at 50 feet.

It is easy to laugh at expletives like "Damn Taoist". But it is also dangerous. You are likely to have your breath robbed in mid-giggle by a *coup de cinema*. Critical lore has it that Hong Kong action cinema died when the torch of visual delirium passed to Hollywood, which could do things bigger and more expensively. But please name me one American director who could even approach this degree of ease, lyricism and wit.

★

Unavoidable circumstances kept me from the Irish film *The Last Of The High Kings*, which I shall review next week. As consolation, let me commend to any reader visiting New York, preferably with children, the Sony Imax experience on Broadway near Lincoln Center.

On a screen the height of seven elephants (claims the brochure) you may watch films in 3D with special visored helmets. These translate the giant images into stereoscopy, so that you can dodge, reel and gasp as spaceships, meteorites, asteroids and great wheeling space stations pass right by your nose.

3D is still an ocular strain: every new image requires a perceptual adjustment for brain and eye to sort out the fresh set of depth-of-field relations. This is even more effortful when width of field is added, as with Imax, covering your whole eye range and then some. But for 25 minutes – the length of each movie – it is worth it. And the Sony Imax theatre in Manhattan is the only place in the world where you can get it.

JINGLE ALL THE WAY
Brian Levant

HOME FOR THE HOLIDAYS
Jodie Foster

THE DAY OF THE BEAST
Alex de la Iglesia

A CHINESE GHOST STORY
Ching Siu Tung

Anxious Dad Arnold Schwarzenegger braves Christmas stampede of shoppers to find Turbo Man doll for brat of a son in 'Jingle All The Way'

Theatre/David Murray

Silly-ass hero carries the play

Kevin McNally and Griff Rhys Jones in Ben Travers's 1928 farce 'Plunder' Alastair Muir

Ben Travers' *Plunder* is 68-years-old, and still doing quite nicely at the Savoy Theatre. Not quite what it was, I think; in the late 1920s, West End audiences probably still got a frisson of delighted shock from the frank venality of all the main characters – three of them nobs. Nowadays we take that in our stride, of course.

But even sniggers add up to laughs, and enough laughs add up to a good evening. The plot in *Plunder*, meaning the characters' devious plottings, is complicated enough to need a lot of setting out. (Briefly: silly-ass hero agrees to collaborate in stealing his girlfriend's jewelry back from its unworthy inheritor, with an old friend who was going to steal it anyway.) Quite long stretches of that are now *frisson-free*, and play like antique thriller-exposition. The director Peter James tries to inject the odd extraneous spark, but it usually fizzles.

There are, however, longer stretches where Griff Rhys Jones *presides as silly-ass D'Arcy; and* Rhys Jones is an inspired comic technician. It is pure pleasure to watch him fleshing out Travers' almost-innocent hero in pole-axed gestures and postures (practised to the hilt) that make his comically decent confusion palpable, exact and very funny. His centre-parted, pop-eyed descent, stage by stage, into realising that he is actually committing a crime, is relishable *en gros et en détail*.

Obviously this is a show for Rhys Jones fans; even better, perhaps, for people who ignore television and therefore have never seen the man. Where the rest of us know his range pretty well and are not going to be astonished by this impersonation, newcomers may be bowled over. And they may appreciate better just how consistently true he is to his fantasy-character: every neat comic turn spells out the benighted D'Arcy a bit further, nothing ever looks like impersonal, all-purpose routine.

As his wicked old friend Freddy, *Kevin McNally chooses to play* the straight-man, generating few laughs on his own account. That works well enough, and is enhanced during the police interrogation when he goes in for a faultless Terry-Thomas act. All the same, I should guess that in Travers' original cast he was a proper comic, bright enough to keep things going when D'Arcy is offstage. Sara Crowe's Joan, the girlfriend and disappointed non-inheritor, is a twitchily elegant cartoon of what we imagine posh 1920s stage-heroines to have been *like (real life has* nothing to do with it).

Sarah Berger, as Freddy's slinky "sister", is just as crisp. As "Mrs Hewlett", the battle-axe housekeeper who married Joan's Daddy just before his demise and got the lot, Rachel Bell is aggressively feisty, broad and routine, with no special glint of character. Ramsay Gilderdale plays her terminally weedy son to the jellyish hilt, and everybody does justice to the smaller roles. It will do, just about; but Rhys Jones remains the best excuse for the show. For *its sake*, we must wish *him* unbroken good health.

Theatre

With a quirky bizarre charm

In its short life, the theatre company Told By an *Idiot* has gathered a devoted following and, on the evidence of its latest show, it is easy to see why. The company has a real gift for creating a bizarre stage world with a logic of its own.

You Haven't Embraced Me Yet is a devised show, yet it has none of the scrappiness or lack of cohesion that afflict so many shows created this way. It doesn't have much in the way of *plot – it is basically a tale of* jealousy and revenge that tells what happens when a charismatic outsider, Natalie, arrives to disrupt the cosy relationship between Jimmy and Lilly. It is the idiosyncratic style that makes it.

The nearest in feeling might be Beckett. Here, as in his plays, we have a curious little world that seems to run on alongside our own: a bizarre, theatrical world where men and women go through odd routines for reasons known only to themselves.

Jimmy and Lilly live, it seems, backstage in some sort of theatre like a pair of small rodents. Their home is a curtained platform atop a cast iron spiral staircase; they keep their belongings in boxes under a triangular stage festooned with fairylights; they look like characters from a seaside variety show.

Are they brother and sister? Man and wife? Hard to say, but in the hands of Hayley Carmichael and Paul Hunter, they make a peculiarly poignant little couple, as they chase each other round the stage changing costumes or making gunshot sounds with a stainless steel teapot.

Then, in clatters Natalie (Eva Marie Bryer) with a violin in a shopping trolley, a beautiful figure and a *dangerous air of* vulnerability. The chemistry between Jimmy and Lilly is changed for ever and we watch the two women's struggle for power over their man like a pair of puppies with a slipper.

If there is a criticism, it is that it is too manic. It suffers from that unspoken rule "if in doubt, dash about". There is just too much running around and pounding noisily up and down stairs here for its own good.

But the piece has an undeniable, quirky charm of its own and when you leave, the effect is rather like closing a music box: you feel that its private little world carries on revolving even after you have stopped looking at it.

Sarah Hemming

You Haven't Embraced Me Yet continues at BAC *London SW11 to December* 15 (0171 223 2223).

INTERNATIONAL ARTS GUIDE

■ BARCELONA

EXHIBITION
Fundació Joan Miró Tel: 34-3-3291908
● Anatomies of the Soul – Jesús Galdón: "On this side of the mirror": first in a new cycle of exhibitions, selected by the art critic Ferran Barenblit, focusing on the human being. "On this side of the mirror" tries to demonstrate that we always speak about and show what is just "on the other side of the mirror": the world of representation, of the imagination, of reflection. Galdón aims to show what is on this side of the mirror, exploring the geography of the human being and its identity. He presents an installation in which hang three imaginary canvas maps, cut out in the shape of a person, and three methacrylate outlines criss-crossed by rivers, mountains and towns respectively; to Dec 8

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Joachim Dalitz: the organist performs works by J.S. Bach; 3.30pm; Dec 7
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Deutsches Symphonie-Orchester Berlin: with conductor Vladimir Ashkenazy and cellist Yo-Yo Ma perform works by Goldschmidt and *Strauss; 8pm; Dec 6, 7 (4pm)*

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● Le Lac des Fées: a choreography by Pierre Lacotte to music by Auber, performed by the Ballett der Staatsoper Unter den Linden. Soloists include Scherzer, Knop, Timptner and Matz; 7pm; Dec 6

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Rundfunkorchester der SWF: with conductor Peter Falk, soprano Noemie Nadelmann, tenor Johannes Kalpers, violinist Maria-Elisabeth Lott and the Mainzer Domchor perform works by J.S. Bach, Handel, Vivaldi, Adam and others; 8pm; Dec 6

■ GENEVA

EXHIBITION
Musee d'Art et d'Histoire Tel: 41-22-3114340
● Adrian Schiess: *exhibition of* works by the Zurich artist Adrian Schiess (b. 1959), winner of the Prix d'art contemporain de la Banque Cantonale de Genève in 1996; from Dec 6 to Mar 2

■ LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● Mozart Festival Orchestra: with conductor/pianist Ian Watson and horn-player Stephen Stirling perform works by Mozart; 7.30pm; Dec 6
Wigmore Hall Tel: 44-171-9352141
● The Nash Ensemble: perform works by Saint-Saëns, Rossini, Ponchielli and Weber. Soloists include clarinettist Michael Collins; 11.30am; Dec 8

EXHIBITION
Tate Gallery Tel: 44-171-8878000
● Turner in the North of England, 1797: this exhibition focuses on the tour J.M.W. Turner made to the north of England in 1797 at the age of 22. It is being staged in collaboration with Harewood House to commemorate the bicentenary of the tour. At the centre of the display are the two large leatherbound notebooks which Turner filled with nearly 200 sketches during the course of the two months he spent away from London. Photographic facsimiles of both books allow visitors to follow Turner's progress. Also several paintings and watercolours are shown, including the oil paintings of Buttermere Lake and Coniston Fells; to Feb 9

■ MADRID

EXHIBITION
Fundación Collección Thyssen-Bornemisza Tel: 34-1-4203944
● Surrealist Games. 100 Cadavres Exquis: exhibition featuring a selection of around 100 so-called "cadavres exquis". The "cadavres exquis" consist of collective drawings by members of the Surrealist Group following a particular method. The promoter of this procedure was André Breton. *Most of the artists and* poets who were present at the meetings of the Surrealist Group also participated in the creation of the "cadavres exquis": Picasso, Max Ernst, Miró, Masson, Dalí, Tanguy, and others, as well as writers such as Eluard, Aragon, Souppault, and others, in addition to Breton himself; to Feb 26
Palacio de Velázquez Tel: 34-1-573-62-45
● Juan Muñoz: exhibition devoted to the work of this Spanish sculptor. The display features 89 sculptures, drawings and sketches, and aims to give insight into the artist's working methods; to Feb 15

■ METZ

CONCERT
LArsenal Tel: 33-87 39 92 00
● Finnish Radio Symphony Orchestra: with conductor Jukka-Pekka Saraste and cellist Natalia Gutman perform works by Lindberg, Lutoslawski and Sibelius; 8.30pm; Dec 6

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● Pamela Frank and Peter Serkin: the violinist and pianist perform works by J.S. Bach, Takemitsu, Mozart, Lieberson and Busoni; 3pm; Dec 8

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● European Miniatures in The Metropolitan Museum of Art: *exhibition featuring objects from* the museum's collection of European miniatures. Some 250 European portrait miniatures plus some 50 European gold boxes that are important for their painted decoration are included. Most of the objects are British or French. This exhibition complements the exhibition of portrait miniatures from the British Royal Collection which takes place at the same time; to Jan 4

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Ensemble l'Archibudelli: with cellist Anner Bylsma, violinist Vera Beths, viola-player Jürgen Kussmaul, double-bass player. Anthony Woodrow and pianist Jos van Immerseel perform works by Schubert; 11am; Dec 8

EXHIBITION
Institut Néerlandais Tel: 33-1-53 59 12 40
● *Ed van der Elsken, entre films* et photos: exhibition devoted to the work of the Dutch photographer and filmer Ed van der Elsken (1925-1990); to Dec 8
Musée Picasso Tel: 33-1 42 71 70 84
● Picasso. Gravures. 1900-1942: exhibition featuring some 230 graphic works by Pablo Picasso from the period 1900-1942, including such works as "Flûtiste et dormeuse" (1933), "Minotauromachie" (1935), "Femme qui pleure" (1937), and "Femme au tambourin" (1939); to *Jan 20*

■ ZURICH

EXHIBITION
Kunsthaus Zürich Tel: 41-1-2516765
● Wunderkammer Osterreich: exhibition on the theme of the Austrian intellectual and cultural history. The organisers offer an unprecedented view of Austria, visualising the most diverse artistic, scientific and socio-political ideas. Well-known figures from Austrian art and history emerge in a new light: Gustav Klimt, Egon Schiele and Oskar Kokoschka, the architects Josef Hoffmann and Otto Wagner, as well as "drop-outs" from the house of Habsburg or famous Austrian film directors such as Fritz Lang and Billy Wilder. The exhibition charts an ambitious survey of Austrian creativity; from Dec 6 to Feb 23

WORLD SERVICE

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(Central European Time)

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Economic Viewpoint • Samuel Brittan

A tale of two governors

The sterling rise since the summer makes an inflationary take-off less likely and it is not yet at a level which should interfere with base rate decisions

The top teams of the Bank of England and the Banque de France had an amicable day-long working meeting in London last Friday. But on one leading policy matter Mr Jean-Claude Trichet, the Bank of France governor, and Mr Eddie George, the Bank of England governor, remained far apart.

The French governor insisted that the *franc fort* policy was the cornerstone of counter-inflationary policy. This means keeping the franc as close to the D-Mark as possible, and eventually merging the franc in a new euro. Indeed Mr Trichet issued from London a statement disowning criticism of that policy by independent members of the Bank's monetary council.

The British governor's stand could hardly have been more different. Mr George did not see how an exchange rate peg could be the cornerstone of counter-inflationary policy. He considered it vital to be able to vary interest rates in accordance with domestic economic conditions. Discussion did not bring the two sides any closer.

In part the disagreement reflected varying experience. The British government of Edward Heath had to leave the first attempt at European exchange rate management, known by the creepy name of "the snake", after six weeks in 1972. The UK did not participate in the first decade of the more formalised exchange rate mechanism, which was established in 1979.

An attempt to shadow the D-Mark came to grief in the late 1980s, when domestic and exchange rate considerations pointed in different directions. After that the UK's formal membership of the ERM lasted less than two years and was brought to a humiliating end on Black Wednesday, September 16 1992. Three times bitten, long time shy.

But that does not end the argument. France used its first decade of ERM membership to lever its inflation rate down, and when domestic monetarism would not have commanded a political consensus. And while the French franc has had its share of devaluations and departures from formal mechanisms, in recent years depreciations have been modest and short-lived.

The French can point out that the interest rate advantage that Britain gained from leaving the ERM was temporary and that French interest rates, both long and short term, and both nominal and real, are within a spitting distance of German rates and well below British ones. The Bank of England can respond that this has been achieved at the cost of domestic stagnation and an unemployment rate well above the British.

Mr Trichet has already responded in public by saying that 80 per cent of French unemployment is structural. By this he has in mind labour market features such as minimum wages, high social security overheads and cost-increasing collective bargaining agreements (such as the one just concluded with the truck drivers) which price French workers out of jobs. The British governor might reply that until the French have tackled these internal rigidities it is too risky to be committed to irrevocably fixed exchange rates.

My own brief reaction is that if European labour markets can be liberalised – as seems to be happening at last in the Netherlands – either fixed or floating exchange rates can work. But if such liberalisation is regarded as "socially unacceptable", no exchange rate system will help.

Meanwhile a domestic argument is arising in the UK. After reaching a post-ERM high of DM2.64 on Tuesday, sterling subsided on a burst of profit-taking. Further fluctuations are likely and it is far too soon to be sure that sterling will not again move higher.

In its November Inflation Report the Bank of England came out strongly against taking the level of sterling into account in determining interest rates. At the time the Bank was right. Sterling was still low on a medium-term perspective and financial indicators did not suggest any market confidence that inflation would return for long to the government's 2½ per cent target.

But sterling could easily again become important for the setting of interest rates. Of course British exporters would like a low pound. But this cannot be the only consideration. British consumers benefit from a high pound; and the appropriate rate must be a balance.

Soon after the UK joined the ERM at the rate of DM2.95 senior members of the Bundesbank indicated that they thought this too high – they preferred rates varying from DM2.60 to DM2.90. Thus although the entry rate was excessive, in the view of hardboiled observers it was not nearly as excessive as the anti-ERM lobby asserts.

It should not be forgotten that two days before Black Wednesday the economic advisers of both the Bank of England and the Treasury were in Bonn and Frankfurt on an 11th hour mission to persuade German financial leaders that the ERM entry exchange rate was viable.

While they might not have had their heart in the enterprise, they were not perjuring themselves or talking obvious nonsense. The main reason why the UK had to leave the ERM was not because of the exchange rate chosen, but because the high interest rates on which the Bundesbank insisted after German unification were not suited to the UK, which was then suffering from an unexpectedly prolonged recession.

When sterling left the ERM, many commentators had egg on their faces. This was not only because of the event itself. It was also because inflation, far from suffering the (at least temporary) acceleration which they had feared, continued to fall rapidly.

Matters look different now. The very sharp fall in UK inflation from 1990 to 1994 was not only the result of the unexpectedly severe domestic recession. It also reflected the years of the attempted shadowing of the D-Mark and then of ERM membership.

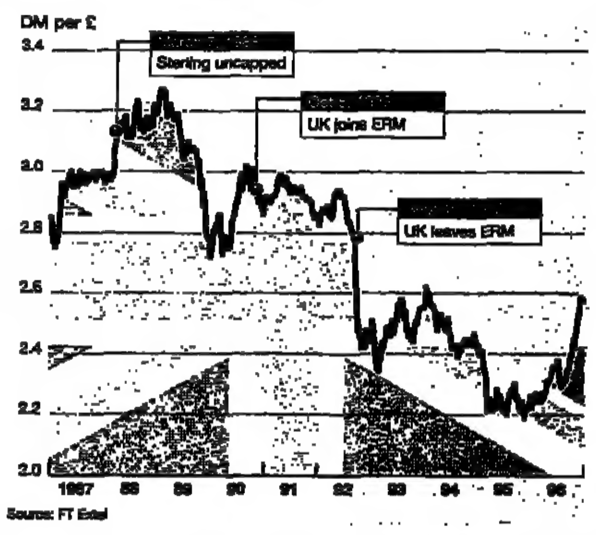
The feedback from the 1992 depreciation to UK inflation was very slow in coming, first because of the UK recession and then because of the very halting recovery on the Continent. But the recent revival of inflationary symptoms suggests that the fall in sterling has had a delayed impact. The recovery in sterling since the summer may help prevent this inflationary revival from gathering strength.

We could of course have too much of a good thing. Sterling could reach a level at which it would be the main anti-inflationary force, and base rates would have to be put on hold. The dilemmas of 1987-88, when domestic and exchange rate considerations seemed to point in opposite directions, are liable to occur again and again, so long as sterling remains proudly outside any wider monetary system.

That point has not yet been reached. There is still no reason for the Bank to refrain from pushing hard for a base rate increase for domestic reasons. Indeed it is sad that the collegiate system for determining interest rates and the preference expressed for very small movements prevent the pre-emptive ¼ per cent or 1 percentage point rise in interest rates which would take them to a level where they could move either way.

Bank of England speculation on the "causes" of sterling's recent rise is not particularly helpful or convincing. The exchange rate continues to give a message. It is as foolish to ignore that message as it is to refuse to take into account other more domestic indicators.

Sterling's partial recovery



Source: FT Extel

BOOK REVIEW • Robert Thomson

BORN TO REBEL By Frank J. Sulloway
Little Brown, 654 pages, £20

Character building by numbers

Piecing together personalities has great potential as a board game. Combine a secondborn son with a dysfunctional father, an upper-middle class education, lapsed Catholicism and a family history of alcohol abuse, and Player A has created the profile of a struggling Irish playwright, an aspiring US senatorial candidate or the deputy general manager of the housing loan section of a British bank.

The permutations of the personality game are endless, but Frank J. Sulloway has attempted to rewrite the rules by identifying birth order as by far the most important factor in character development. In *Born to Rebel*, sibling rivalry now gets a much higher score than the oedipal rivalry of Sigmund Freud, who saw revolutionary potential in the tortured relationships between parents and disaffected offspring.

The book's own claims to greatness rest on a large mound of research into the family background of scientists, political leaders and activists in historical events such as the Protestant Reformation and the French Revolution. It is said to contain conclusions distilled from more than half a million bits of biographical data, so the weight of numbers, if not the weight of evidence, is on Sulloway's side.

Beneath the impressive detail, there is a definition problem. Rebelliousness is sometimes equated with creativity, which is sometimes equated with leadership, itself sometimes equated with good intentions. But the genius artist and firebrand revolutionary, with their intermittent explosions of activity, are tapping different energies from those drawn on by the painstaking Charles Darwin, the book's biggest emblem of laterborn success, he being the fifth of six children.

There is much logic in identifying the influence of childhood choices, with the firstborn modelling his or her behaviour on perceived parental expectations and the secondborn, realising that the vacancy is filled, taking the opportunity to "rebel" by looking elsewhere for inspiration. "Niche picking" is how Sulloway describes this process of selection, but he neglects to detail the development from potential rebel to real rebel.

Too much time is spent trying to prove the point that laterborns are more likely to be magnanimous, thoughtful, original and all-round good folk, while feckless firstborns are willing to walk the line drawn by somebody else. In discussing the anthropologist Margaret Mead, the author notes that, "a firstborn, she was hostile to psychoanalysis".

Occasionally, the book verges on the genetic in its quest to put the famous in their place: "When a youngest son like Benjamin Franklin is descended from four previous generations of youngest sons, he is usually a rebel." And sins are to be forgiven because "the mistakes of laterborns often arise from an excess of rebellious zeal".

A chapter on "exceptions to the rule" concedes that not every interesting person can be identified by birth order. With the Reformation, the firstborn Martin Luther deserves most of the credit for getting the movement going, though Sulloway suggests he is considered the "least socially progressive" of the period's reformers.

Conveniently, the ruthless Mao Zedong and Carlos the Jackal are firstborns, while the book gets around the problem of the fourthborn but dictatorial Stalin by declaring he is a "functional firstborn" (the siblings did die young). As an actual firstborn, I guess my hostility to some of Sulloway's observations is inevitable – he is third in a line of brothers and has described himself as a "functional lastborn", discounting the influence of a younger half-brother.

But, having gathered the statistics, there is little attempt to try them out in different circumstances. What of modern China, where a one-child policy is creating a whole nation of firstborns? And how does the preoccupation with a male heir set Japan apart from the rest of the modern world? The Japanese put the second-placed sibling in proper context with the label "cold rice".

Sulloway argues coherently enough that the moral urgency of Marxist thought and its class-based judgments do not provide an adequate understanding of the radical individual. But he is less convincing when asserting that gender is a minor influence and suggesting that "ethnic oppression makes firstborns behave like laterborns". Having stumbled across a wonderful set of facts, he has failed to turn them into a theory.

His next challenge is to leave behind the sound of crunching numbers and grapple with a better, broader explanation able to cope with the "Shrewsbury factor" and doting uncles: in describing his decision to join the Beagle as the ship's naturalist on its journey to the Galápagos islands, Charles Darwin noted that what was "by far the most important event in my life" depended on "so small a circumstance as my uncle offering to drive me 30 miles to Shrewsbury, which few uncles would have done".

Born to Rebel is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Translation may be available for letters written in the main international languages.

Public voice must be heard on foods issue

From Mr Peter Melchett and others.

Sir, Consumer concern about genetically engineered food is growing but is clearly being ignored ("EU agrees rules on sale of 'novel' food," December 2). The UK Food and Drink Federation found 93 per cent of the public want genetically engineered food to be clearly labelled. Members of the European parliament voted overwhelmingly in favour of segregating genetically engineered beans from conventional ones and labelling them. Why, then, is the European Commission ignoring what the public wants?

Last Friday, the first direct shipment of genetically engineered soya arrived in the UK from the US. It was met with protest. This is the first genetically engineered commodity crop to go on sale in the UK being used as an ingredient in about 60 per cent of all processed food products. Under present EU rules, none of these products will have to be labelled. Consumers who wish to avoid genetically engineered soya are being denied the right to choose.

The BSE crisis has shown that even small changes to the food production system can have unpredictable and disastrous results. There are no benefits to the consumer of genetically engineered soya beans and no one is able to give the public complete assurances of its safety. The Commission must listen to the concerns of consumers (and those of us who represent them) if it is to retain our trust over the food that we eat.

Peter Melchett,
executive director,
Greenpeace UK,
Uta Bellion,
campaigns director,
Friends of the Earth,
Vicki Hird,
co-ordinator,
SAFE Alliance,
Jeanette Longfield,
National Food Alliance,
Tim Lobstein,
Food Commission,
Julie Sheppard,
Genetics Forum,
as from: Canonbury Villas,
London N1 2PN, UK

Mystique not suspicion

From Mr Mark Lee.

Sir, Lucy Kellaway is right that to be introduced as a consultant is to invite suspicion if not downright hostility ("Who dreamed up this bright idea?" December 2). With one exception. The medical profession and patients still treat their consultants with respect bordering on awe. How often does one hear of their fees being haggled over? But then not every consultant has a remit to pronounce on his customers' life, nor the added mystique of the white coat and stethoscope at the sight of which all doubt and dissent evaporate.

Mark Lee,
Watermark & Co,
55 Greek Street,
London W1V 5LR, UK

Allegations are unfounded

From Mr Lars Evander.

Sir, I read with interest comments made by Mr Erik Asbrink, Sweden's finance minister, about the board of Stadshypotek AB, as published in your story "Swedish minister attacks bank over merger" (December 3).

Perhaps Mr Asbrink would benefit from a brief look at the Swedish Companies Act which *inter alia* governs the role of the board of a Swedish public company.

Mr Asbrink is quoted as saying: "It is more about rigging the business in the interest of a minority of people in the prospective management who are organising jobs for themselves."

He should take great care in making such allegations and having support for them in fact. His allegations are totally unfounded and carry the debate below the dignity of the board. Mr Asbrink holds a key position in the Swedish government. His comments will be closely followed by investors and will be important for Swedish privatisations.

Lars Evander,
board member,
Stadshypotek AB,
5 Marlborough Crescent,
Bedford Park,
London, UK

Influence on management school only that of freeholder

From Professor John Kay and Mr Wafic Said.

Sir, Della Bradshaw's article ("Oxford extends the boundaries", December 2) and your news report ("Oxford to reopen talks with Said", November 29) may give rise to confusion about the role of the Said Foundation in support of Oxford's business school.

The foundation will own the building which it has funded. As a result, it acquires precisely the same influence over the academic activities of the school as the Crown Estates enjoys over London Business School, or any other freeholder enjoys over the activities which take place on its premises. The foundation does not have, and does not seek to have, any share in the direction of the school.

We are both committed to developing a world class business school in Oxford. The arrangements we hope to put in place to secure its funding are solely designed to achieve that objective. The school will have a freedom and independence to develop its activities matched today in British education only by a few rich Oxford and Cambridge colleges and some leading public schools. No one looking at the state of British higher education today can believe that current funding arrangements are adequate to protect its traditional standards of excellence. We are jointly determined to enhance them.

John Kay,
director designate,
Oxford University School of Management Studies,
Wafic Said,
66 Chiltern Street,
London W1M 1PR, UK

From Professor Tony Eccles.

Sir, Your latest report on the Oxford business school ("Oxford extends the boundaries", December 2) and Peter North's letter (December 3) both focus on the issues of control and acceptability. Any university would be careful about attaching its name and reputation to an activity that it did not own and control. Mr Said indicated that his foundation's rights are very limited. Then it should be easy for him to give those up and so settle one key objection by giving the university unequivocal ownership and stewardship.

If that were done, then, assuming that the university finds a more acceptable (though possibly more expensive) site, the whole thing might fall into place. As it is, there is a puzzle. Oxford has claimed that its management school will have the civilising feature of drawing on the immense, university-wide intellectual resources of its academics as a competitive advantage compared to the narrower agendas of some other schools. The university has hinted that it might still be able to drive the present flawed plan through via the votes of its administrators. But they won't be the ones who have to deliver that intellectual stimulus. What is the point of continuing with a plan that will leave a sullen atmosphere among many of the academics? Perhaps its promoters hope for swift amnesia. But in academic institutions, this can take decades. So why set off with that handicap?

Tony Eccles,
12 Greville Place,
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FINANCIAL TIMES

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Thursday December 5 1996

The French defence

The rejection of Lagardère's bid for Thomson by the French privatisation committee has a certain glum predictability. Glimpsed through the swirling fog of domestic politics, the committee's objections seem to boil down to two propositions.

First, Thomson Multimedia – the consumer electronics part of the business – has invested large chunks of public money in new technology. Never mind that Thomson Multimedia as a whole makes large losses, or that the high-tech investments have yet to bear fruit. The Lagardère deal involves handing the business to Daewoo of Korea. Foreigners, the judgment implies, must not reap what the French taxpayer has sown.

Second, the Koreans have promised to invest heavily in new jobs and production in France. The committee apparently takes the view that these promises are not legally enforceable. Therefore, Daewoo cannot be trusted to honour them.

It is possible to feel more than a twinge of sympathy for Daewoo. On the one hand, the French authorities apparently do not believe that it will expand and create jobs on French soil. On the other, Brussels is out to stop it doing just that.

The French taxpayer is due to pump some FFr10bn into Thomson Multimedia as part of the price of getting rid of it. Suppose Daewoo used that strengthened balance sheet to increase market share, at the expense of other EU producers. This would seem a clear case of state subsidy, if at one remove, and would thus be at odds with EU rules. Faced with such an internal European squabble, what are the Koreans to do?

Given yesterday's decision, the question may be academic. Although the details are unclear, it seems likely that the bidding for Thomson will once more be thrown open.

Conceivably, the former two-horse race between Lagardère and Alcatel may be widened by the appearance of new contestants. Failing that, the way seems open for Alcatel to scoop the pool.

In terms of the defence industry, this would be a rational solution: no less so, arguably, than the Lagardère deal. The danger is rather that in rejecting Daewoo, France has given a clear signal that its ambitions to maintain a national champion in consumer electronics remain intact.

If the bidding for Thomson is to be resumed, well and good. But the French authorities should cast their net widely. Above all, they should seek to convince bidders that in the needed reorganisation of domestic industry, they are not slamming the door on foreign help.

Scrap directive

Rusting old bangers piled high in the scrapyard are often seen as a symbol of the profligacy of consumer societies. They are also an eyesore. Moreover, some of the remains of these vehicles are said to be causing congestion in landfill rubbish tips in parts of Europe.

As a result there is a widespread agreement that more should be done to recycle old vehicles – to prevent waste and reduce the disfigurement of the environment, particularly from cars which are simply abandoned to decay.

The European Commission, ever eager to right such wrongs with a new directive, would like to impose an obligation on all car manufacturers to take back their vehicles at the end of their lives and recycle their components. The object of such a directive would be to meet a real difficulty: in an unfettered market, manufacturers have little direct incentive to make vehicles which are easy to dismantle and recycle. Customers of new cars bear the costs of designing "greener" vehicles, while the benefits accrue to society many years later.

However, adding to the mountain of European regulations is not the best way to solve this problem, not least because directives tend to be inflexible and excessively expensive to implement. This has been particularly true of environmental regulations which may conflate rather vague emotional pleas for saving the environment with the economic arguments for identifying market failure and changing behaviour. The danger in this case is that the costs of burying car parts will be over emphasised and the requirements for recycling overspecified.

The EU would do better to encourage and extend the voluntary agreements which carmakers have already made to improve the proportion of a vehicle that can be recycled. This has reached about 75 per cent. New techniques being developed by manufacturers to help scrap companies to sort plastics for recycling will improve this figure.

Large manufacturers need to be seen as good citizens. They might, if necessary, be given an additional push via the tax system. But the view in Brussels that 95 per cent of all cars should be recyclable seems absurdly restrictive.

It is wrong to suggest, as some environmentalists do, that burying used materials is necessarily wasteful. The market can assign efficient prices to scrap which will determine whether it is more wasteful to throw it away or to re-use it. If burying carries environmental costs, these incentives should be changed – as is now the case in the UK – by a landfill tax

UK job cuts

After four years of economic recovery in the UK, important companies are still shedding large numbers of jobs: LucasVarity announced this week that it is to reduce its payroll by 8,000 jobs, more people are to go at National Westminster Bank and Scottish Power will reduce the workforce at its Southern Water acquisition by 2,000.

In the US, where big corporations have lost hundreds of thousands of jobs during the recovery phase, many are now questioning the slim-is-beautiful philosophy. Even voices on Wall Street say that the shedding of labour has gone too far. In the UK, the Banking Ombudsman has said that bank branch closures are causing problems for customers. But grim as it can be for people losing their jobs, redundancies are an inevitable part of the improved flexibility in labour markets which is helping to stimulate economic growth on both sides of the Atlantic. By contrast, some governments in continental Europe are paying the price of policies intended to save jobs at the price of economic efficiency.

In countries with flexible labour markets there are several reasons why companies continue to cut their workforces even in prosperous times. Managers of monopolies, such as Southern Water, for example, do not face competitive pressure to control costs. Another explanation may be that companies find earlier diversifications have been unsuccessful. LucasVarity is pulling out of 13 non-core operations, and Southern Water will sell peripheral businesses from vehicle leasing to engineering. A third pressure is technology: NatWest needs fewer people because banking systems are changing.

In the public mind, the focus on job cuts at a few large companies may also distract attention from what is happening in the economy as whole. In the UK the labour market is tightening significantly. Unemployment is under 2m, and 500,000 below its 1993 peak. Earnings growth is still subdued – about half the rate of the 1980s recovery – but it has accelerated to 4 per cent from 3¾ per cent last year. Vacancies at job centres are at their highest level since the peak year of 1988. The British Chambers of Commerce suggest that recruitment difficulties have risen sharply.

Above all, the recovery has created a net 700,000 new jobs in the UK – substantially part-time and mainly temporary. In the US, smaller companies created 10m more jobs than have been lost since 1992. So although the recent news might suggest that jobs continue to be lost at a high rate in corporate Britain, the overall figures – and anecdotal evidence – show that those losing jobs find new ones more quickly, and the numbers who remain out of work for long periods are much reduced.

Tripped on the way to market

Juppé's government has stumbled over its attempt to sell the Thomson electronics company to the Lagardère group, says **David Buchan**

The French government intends to have a second try at selling the Thomson electronics group, despite the fiasco of its first attempt. Mr Alain Juppé, the prime minister, yesterday promised the speedy launch of a new privatisation process "which will be defined very rapidly".

But the government is now in a mess, following the surprise decision yesterday by its own privatisation committee not to endorse the preference which the government expressed in October for the Lagardère group, rather than its rival Alcatel, to buy Thomson.

The setback is most obvious for Lagardère and its bid partner, Daewoo of South Korea. The French missiles-to-magazines group said yesterday it awaited "with confidence" the government's new ground rules for the sale. In making a new bid, it said it would take account of the privatisation committee's objections concerning its planned resale of Thomson Multimedia, the consumer electronics arm, to Daewoo. But the Lagardère group, under its leader Jean-Luc Lagardère, knows its dream of becoming Europe's largest defence electronics company by incorporating the Thomson-CSF defence division may now not be realised.

However, the damage from the withdrawal of the privatisation reaches far wider.

Inside the government, it will shake the standing of Mr Juppé, who imposed his preference for the Lagardère-Daewoo solution on the Ministries of Industry and Finance, which leaned towards Alcatel as a single French buyer of the whole of Thomson. On the opposition benches, the Socialists were jubilant at the government's retreat – for which they have been clamouring.

It is also a setback for President Jacques Chirac, who himself announced the Thomson privatisation in February as part of his plans to restructure France's defence sector. But the Thomson sale is now back to square one, and France still has not made up its long time-lag behind the US and other European countries in reordering its arms industry.

The image of France as a country that was beginning not only to accept, but positively welcome, foreign investment has taken a knock. Regardless of the complex technology transfer issues raised by Daewoo's bid for Thomson Multimedia, the anti-Daewoo campaign mounted by Multimedia's trade unions and by opposition politicians, compounded by the reservations expressed by the privatisation committee, takes on a xenophobic tinge in foreign eyes.

With British Airways' recent success in adding Air Liberté to its control of the TAT airline in France, and British Telecom's recent entry into the French telecoms market in partnership with Générale des Eaux, France had seemed to be opening up. The blow to Daewoo tarnishes this record, and does not augur well for the bid by GEC of the UK to join Alcatel in investing in Framatome, the French nuclear engineering company.

The first nine and a half months of the Thomson privatisation saga have proved to be a catalogue of errors. The first mistake came in the vagueness of President Chirac's February declaration that he wanted to see Thomson privatised "as a whole". It took some weeks for the government to establish that the president really wanted Thomson-CSF and Multimedia sold together; it had been suggested at first that Mr Chirac, because he made his remarks in a speech on defence matters, was merely indicating that he did not want the Thomson-CSF defence unit itself to be split up.

Lagardère has always made clear it only wanted, and still only wants, Thomson-CSF, but was ready to find a potential buyer for Multimedia, which it eventually did in the shape of Daewoo. Alcatel always said it was ready to buy and keep the whole group, although with an Asian industrial partner to participate in Multimedia's production and marketing.

There followed a battle royal between the two contenders, long enough for Lagardère and Alcatel to lobby everyone who counted in Mr Chirac's Elysée palace, Mr Juppé's Matignon office and in the defence, industry and finance ministries. It was no wonder that the contest split the French administration down the middle. That division persisted after the September 16 closure of bids, which turned out, in financial terms, to be no more than FFr41m ($7.9m) apart.

The first surprise came a month later when Mr Juppé's office announced the government's preference for Lagardère and then directed the ministers of defence, finance and industry – the last two of whom favoured Alcatel – to defend the decision at a tripartite press conference.

Another mistake came at this stage. Mr Jean Arthuis, the finance minister, said the government had decided to take the unusual step of announcing its choice before consulting the privatisation committee, in order to prevent "leaks and the possibility of insider trading". Leaks would have been likely, he implied, because of the politicisation of this privatisation. And insider trading was, he said, a real menace because all three companies – even Thomson, because 42 per cent of Thomson-CSF is held by private investors – are quoted on the stock market. Mr Arthuis strongly implied at the time that the privatisation committee's endorsement of the choice of Lagardère was only a formality.

In the event, the committee did not prove to be the government's poodle, though some observers yesterday were voicing the suspicion that some inside the government may have incited the committee to act as it did. At least yesterday's announcement saved the government the further confusion that would have come if the European Commission had approved the Lagardère-Daewoo takeover yesterday. This would have produced the bizarre situation of Brussels saying yes and Paris no to a plan approved by the French government.

As it turns out, the Commission took no decision yesterday on the takeover, and has yet to vet the issue of the French government's plan to pour FFr11bn of state money into the recapitalisation of Thomson. But a potential deadlock has emerged that may stymie any combined recapitalisation and privatisation of Thomson Multimedia.

In line with its traditional policy of trying to ensure that companies do not use state aid to steal markets from their competitors, Brussels has already asked the French government for assurances that a recapitalised Multimedia would not increase capacity and market share to the detriment of consumer electronics competitors such as Philips of the Netherlands.

But Daewoo has been taking exactly the opposite tack in trying to defuse the opposition of Multimedia's unions. The latter have been complaining, even protesting in the streets, that their company, with a proud record of innovation particularly in digital technology, is going to be milked by an Asian group which specialises in copying other people's inventions. Daewoo's riposte – in a national advertising campaign in France – has been to argue that at least it will invest in Multimedia, expand its production and increase its jobs in France.

In giving Lagardère the thumbs down, the privatisation committee's particular complaint was that Daewoo's job and investment pledges were not legally binding. Neither the French state nor Lagardère, the committee said, could hold the South Korean company to its promises once Multimedia passed to its control.

But the big issue now is the potential clash between Brussels and Paris in any new attempt to sell Multimedia. An expansionary business plan for Multimedia might make its privatisation politically possible in France, but would bring a veto from Brussels; conversely, Brussels-type restrictions on it would probably kill the sale in French eyes.

Whatever course it chooses, further delay is inevitable in a crucial part of France's defence restructuring. Nor are other plans proceeding apace. The plan to create a single aircraft company – in line with British Aerospace in the UK and Daimler-Benz Aerospace (Dasa) in Germany – out of a merger of Dassault's military jet business and Aerospatiale's civil jet division is still hanging fire.

The financial terms of the Aerospatiale-Dassault merger were supposed to be agreed next month, with the combined company due to start operating as one next summer. But Mr Serge Dassault, son of the company's founder, is still arguing directly with the Elysée about preserving his family's financial interests, while also demanding that state-owned Aerospatiale go further to reduce excess capacity and jobs before the merger takes place.

Uncertainty about the fate of Thomson-CSF, which is said to be beginning to take a toll on the company itself and its customers, has international repercussions. One of the reasons why Dasa and Aerospatiale did not consummate their planned satellite and missile joint ventures is that the German company wanted to see who ended up owning Thomson-CSF. The delay puts the defence strategy of the UK's GEC in the same state of limbo.

Traditionally, French presidents subcontract industrial issues to their prime ministers and governments. Equally, however, French presidents take the lead in defence, and Mr Chirac will shortly have to do so in his defence industry with more skill than he and his government have shown up to now.

· OBSERVER ·

Bowing out of Brussels

■ The most powerful Eurocrat in Brussels may be stepping down from his post, a move that would trigger a scramble among EU governments to fill the slot.

Observer hears that David Williamson, the British secretary-general of the commission, wants to retire after 10 years in the job. A Whitehall high-flyer and former adviser to Margaret Thatcher, he's expected to leave towards the end of next year, shortly after his 63rd birthday. There is a chance, however, that the British government might persuade him to stay on a while longer.

When wheeler-dealer Williamson secured the job in 1987 it was seen as a coup for London, and something of an olive branch to an increasingly Eurosceptic Thatcher. Until his appointment, the Commission's most influential office had been occupied for the Community's 30-year life by Emile Noel, a Frenchman.

Given John Major's unhappy relationships with his European partners, they're unlikely to repeat the favour when Williamson goes. Thus one view in Whitehall is that Williamson should be persuaded to stay on – until a government led by born-again European Tony Blair has soothed old wounds.

Otherwise, only one senior British official is seriously tipped to succeed – Sir John Kerr, UK ambassador to Washington. A master of political intrigue and until last year Britain's permanent representative in Brussels, he's also seen as a contender to replace Sir Robin Butler as the British government's cabinet secretary.

Given the climate on the European continent, he might be better off making a play for Butler's domain.

No OK Corral

■ Speaking of Brussels, Observer was delighted to see Neil Kinnock, the EC transport commissioner, in sparkling form on Tuesday evening. He was at the launch of the Centre for European Reform, a new think tank with the mission to stimulate sensible debate about Britain's role in Europe. That'll make a nice change.

Kinnock called upon pro-Europeans to rebuff the propaganda onslaught of British Tory party Eurosceptics and the tabloid press. Some Brits so poorly understand the EC, he said, that they called on him to stop the French truckers' strike, like some "continental Wyatt Earp". Much applause.

The forum is the brainchild of Nick Butler, group policy adviser at BP. Butler persuaded his chairman, Sir David Simon, to join other luminaries, including Sir David Hannay, recently UK ambassador to the UN, and John Monks, general secretary of the UK's Trades Union Congress, to become trustees.

The "centre-left but independent" Centre is sponsored by NatWest bank, Coopers & Lybrand, the retailer J.Sainsbury and Unilever to the tune of £20,000 apiece. Like other British companies with strong European trading interests, they're worried about Britain's Eurosceptic drift.

The centre will in January publish a collection of essays, arguing why Britain should join the single currency. With all his business backers, Butler may just have found a market niche.

What goes up

■ Tuesday's surge in the US dollar came as a relief for Belgium. The country discovered in October that its government had managed to run up paper losses of BFr38.8bn, as a result of buying poorly chosen currency swaps and options. Very nasty. But by yesterday morning, largely thanks to the dollar's 2.5 pfennig gains against the D-Mark, the treasury computer showed that Belgium's paper losses had shrunk to a mere BFr25bn.

Had the country bought the options in an attempt to make profits on currency speculation, rather than merely to hedge risk? "If speculation implies taking a view on markets, then that is inherent to any financial management," opines a treasury official.

The civil servants charged with getting Belgium out of the mess expect to be in post until "between 1998 and 2002". Who knows – if the dollar keeps going up, they might be out of a job even earlier.

It's party time

■ The New York and London offices of ING Barings staged their Christmas parties yesterday. One disgruntled New York employee told Observer that morale is so poor that less than 10 per cent of staff signed up to go to the jolly at the Metropolitan Pavilion in Manhattan. The management has thus been leaning on staff, encouraging them to go and have a good time. ING Barings in New York sees it differently: "Executive management would wish to see as many as possible attend, but it's not part of the job description."

So have a nice day – immediately.

The Financial Times

100 years ago

A Yankee On The C.P.R.
Upon a certain percentage of the American people – fortunately a small percentage as we think – the mere thought of the Canadian Pacific Railway produces much the same effect as a red rag does upon a bad-tempered bull. A most virulent attack has recently been made on the Company in the columns of the New York "Sun" by a gentleman named Mr Francis Wayland Glen. The following is the kind of abuse which this individual lavishes on the C.P.R. "The Canadian Pacific Railway was conceived in sin, born in iniquity and has been maintained by deception, bribe-giving and bribe-receiving, blackmail and forced contributions by the Government of the United States from American Railways."

50 years ago

Mexico's Labour Troubles
Among the problems confronting President Aleman is the situation of the railways where the workers are showing reluctance to carry out Government orders. Similar troubles are threatened in the oil fields. Another question is the possible return of Mexico to a silver monetary unit in place of the present paper currency.

FINANCIAL TIMES
Thursday December 5 1996

Businessmen attack Manila over $500m project

Ethnic Chinese fail in Philippine airport bid

By Edward Luce and Justin Marozzi in Manila

Plans by a group of the Philippines' wealthiest ethnic Chinese businessmen to secure a contract to build a US$500m international airport in Manila have collapsed in acrimony after disagreements with the government.

The six businessmen, who were asked by President Fidel Ramos in 1993 to form a consortium to bid for the scheme, criticised the government for mishandling talks over the project. The group, known as Asia's Emerging Dragon Corp (AEDC), accused the government of withholding vital information about a rival tender which it was required to match. Yesterday the government said the plans had collapsed.

Government officials said the alternative bid, – submitted by Paircargo Consortium, a local group partly owned by Lufthansa, the German airline – had offered a more attractive package which AEDC had subsequently failed to better.

But AEDC, which includes Mr George Ty, owner of Metrobank, the country's largest bank, and Mr Lucio Tan, chairman of Philippine Airlines and a long-standing critic of the government, accused Paircargo of breaching the 40 per cent limit on foreign ownership of public utilities in its tender.

AEDC also said the government had failed to divulge sufficient information about Paircargo's bid for it to come up with an alternative offer.

"While AEDC has, since 1993, actively pursued its desire to build for the country a new and modern international gateway, it was unfortunately hamstrung by unclear and inconsistent actions by the government," the businessmen said.

AEDC's decision to withdraw its tender is a blow to the government. Mr Ramos wanted to involve the country's most powerful business luminaries in the project to build an international airport at a former US airbase north of Manila as well as a third terminal at Manila airport.

He had staked his prestige on eliciting the support of the ethnic Chinese consortium. But many, including BAA, the UK airports operator, which tried and failed to form a joint venture with the Emerging Dragons for the project in 1995, were privately sceptical about AEDC's commitment to the scheme.

Revellers may have to shell out more for nuts

By Deborah Hargreaves

Consumers had better get cracking if they want to make sure of a crunchy Christmas.

A possible shortage has pushed up prices of almonds and pistachios and the cost of hazelnuts has jumped 35 per cent since August after the Turkish government intervened in the market to bolster prices.

Good-quality almonds are almost sold out and prices are up 20 per cent in the past six weeks following a poor Californian crop for the second year running.

Pistachio prices are also up 20 per cent after bad weather affected almost half of this year's Iranian crop.

"It was a bad almond crop this year and the most popular types, sizes and varieties are almost all gone," said Mr Jorn Dahlgard at Kenkko group, the London-based nuts and dried fruit importers.

Californian almond prices have more than doubled over the past two years as cold and windy weather during the important growing periods caused a decline in the harvest and poor-quality nuts. After a disastrous crop in 1995 there were no stocks to carry over to this season.

Pistachio prices have risen from $3,200 a tonne in July to $4,000 a tonne and Mr Dahlgard believes there will be a further rise of $50-$100 a tonne before next summer when supplies will run out. The new season's crop comes to market in November.

The Turkish government's farm co-operative has so far bought about 25 per cent of this year's hazelnut harvest at almost $1,000 a tonne higher than the free market price in an effort to push up prices from their low base of recent years.

"It will encourage a lot more farmers to plant nuts and in five years, when those trees produce, there will be a whole spate of deliveries," said a nut buyer for a leading UK confectioner.

Free market prices have risen to $3,800 a tonne, but remain below the $4,100 a tonne which the Turkish co-operative is believed to be paying farmers.

Commodities, Page 22

THE LEX COLUMN

Splitting Thomson's twins

The manner of Thomson's privatisation has been misconceived from the start because of the focus on French buyers and the insistence on selling Thomson's two businesses, defence and consumer electronics, as a bundle. The process has resulted in just two bidders, Lagardère and Alcatel Alsthom, each of which planned to sell on at least part of the unwanted consumer side to an Asian group. Artificially narrowing the number of bidders is a sure way of securing not just a low value but also a poor industrial solution. Both Thomson twins need partners to thrive, but different ones: Thomson-CSF should team up with a defence electronics business like the UK's GEC-Marconi, while an Asian consumer electronics group would make the best match for Thomson Multimedia.

The obvious way of achieving such a result would be to hold separate auctions. In theory, yesterday's decision to block Lagardère's bid gives France the opportunity to do just that. But, since the deal has been scuppered largely because of the nationality of Lagardère's partner, South Korea's Daewoo, a value-maximising process is most unlikely. The same old approach – but with the further constraint that no Asian partners can be involved – seems on the cards. That could stop financially-strapped Lagardère relaunching a credible bid, leaving the bigger Alcatel as the only buyer. If Alcatel was then able to dictate terms, its shareholders might celebrate. But no other interest, beyond a temporary boost to national pride, would have been served.

Century bonds

If borrowing cheap money for 100 years sounds a finance director's idea of heaven International Business Machines has just entered paradise. Its $850m, 100-year bond – the biggest yet in this still rather select club – comes on top of offerings from Walt Disney, Coca-Cola and the Chinese government among others.

Given current low interest rates, it would be surprising if other companies did not try to follow suit. Such long-dated debt is in effect equity with a valuable tax shield, since the interest payments are tax-deductible. With a fixed coupon of 7½ per cent, IBM's after-tax cost of funds is less than 5 per cent. Yet the computer group paid only around 10 basis points more than it would have done for an equivalent 30-year issue. Nevertheless, for the insurance companies that buy this type of paper to match their long-term liabilities the extra scrap of yield is worth having.

Unfortunately, the market for century bonds has not caught on outside the US. Investors in the eurobond market do not generally buy bonds with maturities of more than 12 years. And, unlike domestic US investors, they have to deal with currency risk – even the bravest would be reluctant to take on such a long-term exposure outside their base currency. The introduction of the euro might, therefore, help this market develop in Europe. Ironically, this could come just as the US government revives its plans to abolish the tax advantages on bonds of over 40 years.

Williams Holdings

Williams Holdings' evolution into a so-called focused conglomerate has been of little benefit to investors so far. This is partly because the group's building products division alone looked like a conglomerate. Moreover, Williams failed to deliver earnings growth to match the market. So yesterday's sale of a motley crew of building product companies represents a more significant turning point than its £360m price tag suggests.

The disposals focus the group far more on security and fire protection products, which should generate sales growth at least in line with the stock market average. Williams is left with substantial fire power for further investment in those businesses. And finally, the price goes some way towards answering criticisms of the management's investment record. The ongoing return on investment may not have been exciting, but Williams has recorded a £90m profit from a very mixed bag of businesses.

Despite the step change in the quality of Williams' business portfolio, its shares still trade on close to a 10 per cent discount to the average prospective price/earnings ratio. Much will depend on the management's ability to reinvest the proceeds profitably. And investors will want to see proof of the growth potential of its residual businesses – like-for-like sales from security products, for example, were flat at the interim stage. Nonetheless, an average p/e rating would not be giving management too much benefit of the doubt.

Money markets

The wheels grind slowly in the UK money markets. The announcement that the Bank of England plans to use gilt repos as part of its daily operations is the first significant reform this century. The benefits will be felt mainly in improved liquidity which the introduction of more instruments and counterparties will allow. Foreigners will find it a more familiar and friendly environment; conveniently, the reforms will also make the Bank's operations more consistent with those of the future European central bank. But the more lasting impact is likely to be symbolic – the reform of London's idiosyncratic money markets marks one of the final chapters in the transition of the City over the past decade from an extended gentlemen's club into a thriving financial centre.

Theoretically the discount houses, which will forfeit their status as the Bank's privileged intermediaries, stand to lose most. Arguably, they will gain more than they lose. The discount house label is something they have been energetically trying to discard for some time. Deprived of their privileges, their efforts will be more credible. And it is not as if close ties to the Bank have been a licence to print money. The combination of quiet markets and the new monetary framework has meant extremely thin pickings in recent years. The days of top-hats, reading the monetary tea-leaves and big bets on interest rates are long gone.

Additional Lex comment on Scottish Power, Page 18

Thomson sell-off suspended

Continued from Page 1

called off the sale of a majority stake in CIC, the country's fifth-largest commercial bank, after the Privatisation Commission ruled that one of the two offers received for the group did not comply with the government's sales requirements.

Shares in Lagardère, which had been suspended pending the announcement, fell heavily on the Paris stock market, closing down more than 7 per cent at FFr145. The company insisted it remained interested in acquiring Thomson. It awaited the new government rules "with interest and confidence". It would take into account the commission's views.

Shares in Alcatel Alsthom, the telecoms and engineering group which was Lagardère's rival in the original bidding, also fell by more than 3 per cent to FFr460. This reflected investors' concerns that Mr Serge Tchuruk, the Alcatel chairman, might now be tempted to table a new offer. Investors would prefer the group to concentrate on its core telecoms business which is in the throes of an important restructuring.

Internet interest fuels IT mergers

By Paul Taylor in London

The explosion of interest in the Internet has helped drive a 40 per cent increase in European mergers and acquisition activity in the information technology sector this year.

The value of mergers and acquisitions in the IT sector in Europe jumped to $71.7bn (£42.9bn) this year according to preliminary year-end figures from Broadview Associates, the London-based mergers and acquisitions specialist.

Broadview says the Internet is fuelling takeover activity in four main IT segments: telecom services, hardware products, software products and services, and media and content services.

"Demand for customer access, Internet infrastructure development, Web site development and security, and digital distribution are key drivers behind this activity," the report says.

Broadview estimates that there have been more than 320 Internet-related deals worldwide this year, almost triple the number in 1995.

Among the European Internet-related transactions it cites MAID's acquisition of a stake in Easynet, the UK-based access provider, as well as US-based MFS Communications' purchase of UUNet, the parent of the UK's largest business Internet provider, Pipex.

The Internet merger wave is also contributing to the upsurge of big telecoms services deals which increased by 56 per cent to $31.4bn this year.

"The telecom segment is restructuring on a world-wide basis with some of the largest deales ever," notes the report.

The valuation of IT companies in 1996, measured as a multiple of revenues, has increased by 22 per cent compared to 1995.

Broadview argues that this reflects the economic strength of the sector and "the strategic requirement for companies to position themselves to capitalise on the Internet opportunity". US buyers, encouraged by the strength of US stock markets, accounted for about 23 per cent of all European M&A deals.

Among them, GE Capital purchased CompuNet, Germany's biggest value-added reseller, and International Business Machines paid $140m for the UK-based Data Sciences computer systems and services group.

IBM launches largest century bond issue to raise $850m

Continued from Page 1

the $4.3bn total has been launched since last November, following a strong bond market rally in 1995.

For the companies concerned, such financing is similar to equity because of its long duration, but the interest paid on bonds is tax-deductible.

Some fund managers, particularly at insurance companies, like to buy very long-dated debt to extend the average maturity of their bond portfolios, which are used to finance long-term liabilities. From a portfolio manager's point of view, the increased risk is not substantial. "If you look at the value of the cash flows beyond 30 years, (the increased risk in a 100 year bond) is nominal," said Mr Arthur Hyde, head of syndicate and capital markets at Salomon Brothers, which arranged the IBM financing. "Investors are embracing new types of capital."

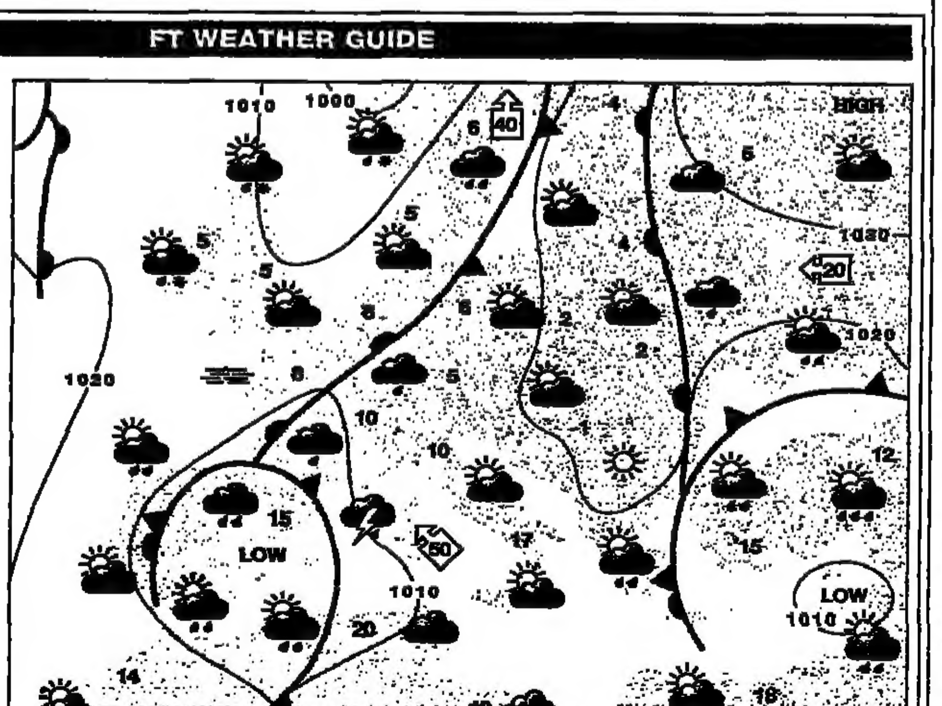
FT WEATHER GUIDE

Europe today

The British Isles will be calmer with bright sunny spells in the south. Fog may persist in central England. A few showers will still affect northern Ireland and Scotland. Low pressure will cause numerous showers in Spain and southern France. Portugal will stay dry with ample sunshine in the Algarve. A stationary front will cause drizzle in western Germany and rain in central France. High pressure will promote calm conditions from Russia across the Balkans to Greece. However, persistant fog may develop over the Balkans.

Five-day forecast

A high in Russia will extend towards the UK, promoting calm conditions with a cooling trend and increasing risk of fog in central and north-western Europe. A low will spread torrential rain in Italy during the weekend. The Balkans will stay calm and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 1	Caracas	thund 29	Faro	sun 14	Madrid	rain 6	Rangoon	fair 34
	Celsius	Belfast	shower 5	Cardiff	fair 7	Frankfurt	cloudy 7	Majorca	shower 17	Reykjavik	fair -3
Abu Dhabi	sun 27	Belgrade	fair 4	Casablanca	shower 17	Geneva	fair 8	Malta	cloudy 18	Rio	rain 27
Accra	fair 31	Berlin	cloudy 5	Chicago	cloudy 0	Gibraltar	shower 15	Manchester	fog 5	Rome	fair 15
Algiers	fair 20	Bermuda	shower 21	Cologne	drzzl 9	Glasgow	fair 4	Manila	cloudy 29	S. Frsco	cloudy 13
Amsterdam	cloudy 8	Bogota	cloudy 20	Dakar	fair 27	Hamburg	drzzl 7	Melbourne	fair 25	Seoul	sleet 3
Athens	fair 15	Bombay	sun 32	Dallas	sun 18	Helsinki	cloudy 2	Mexico City	fair 24	Singapore	shower 31
Atlanta	cloudy 17	Brussels	cloudy 7	Delhi	sun 24	Hong Kong	drzzl 18	Miami	fair 26	Stockholm	drzzl 6
B. Aires	shower 31	Budapest	sun 5	Dubai	sun 27	Honolulu	fair 28	Milan	cloudy 7	Strasbourg	cloudy 8
B.ham	fair 4	C.hagen	drzzl 5	Dublin	fair 5	Istanbul	rain 12	Montreal	fair -0	Sydney	fair 25
Bangkok	fair 33	Cairo	fair 20	Dubrovnik	sun 14	Jakarta	shower 30	Moscow	cloudy 2	Tangier	shower 15
Barcelona	rain 15	Cape Town	fair 25	Edinburgh	fair 5	Jersey	shower 10	Munich	fair 3	Tel Aviv	shower 19
						Karachi	sun 29	Nairobi	fair 25	Tokyo	rain 16
						Kuwait	sun 24	Naples	fair 15	Toronto	sleet 2
						L. Angeles	fair 19	Nassau	fair 27	Vancouver	rain 7
						Las Palmas	shower 21	New York	cloudy 6	Venice	fair 8
						Lima	fair 23	Nice	rain 15	Vienna	fair 6
						Lisbon	shower 13	Nicosia	shower 17	Warsaw	cloudy 2
						London	fair 8	Oslo	drzzl 5	Washington	cloudy 7
						Luxbourg	drzzl 7	Paris	rain 7	Wellington	cloudy 16
						Lyon	cloudy 9	Perth	fair 23	Winnipeg	cloudy -9
						Madeira	shower 18	Prague	fair 3	Zurich	fair 7